

NEWS SUMMARY

GENERAL

Holiday flights held up again

Holidaymakers flying from British airports faced more delays yesterday as French and Spanish air traffic controllers continued their work-to-rule.

At some northern airports, passengers bound for Spain had to wait for up to eight hours for a flight yesterday. At Heathrow, continental flights were being delayed by up to four hours.

Delays were generally shorter than last week, because French controllers allowed more flights through and the Department of Trade lifted its restrictions on night flying.

Fishing talks

Britain's fishing conservation moves, particularly its herring fishing ban, are likely to be criticised at today's meeting in Brussels of Common Market farm and fisheries Ministers.

Team withdrawn

A British Armed Forces team, due to compete in next month's world helicopter championships in the Soviet Union, has been withdrawn on the advice of Foreign Secretary Dr. David Owen, who thinks participation "inappropriate" after recent Soviet dissidents' trials.

Belief 'lost'

Dr. Donald Coggan, Archbishop of Canterbury, told 400 bishops attending an international conference in Lambeth that some of them had virtually "given up believing" that God spoke to the Church.

Cycling win

Frenchman Bernard Hinault, 23, riding in the race for the first time, won the Tour de France cycling marathon. T. L. Raleigh won the team points prize. Feature, Page 10

Sun dispute

The Sun newspaper was not published today. The managing director said that journalists were taking unofficial action in support of a pay claim which breached the Government's guidelines. Times disputes, Page 4

Guards killed

Three guards were killed in a riot by 400 prisoners at an Illinois jail and a fourth critically injured. Snarling tempers and overcrowding were said to have provoked the riot. In Montreal, two prisoners surrendered four hostages seized three days ago.

Guerrilla link

Madrid investigators are considering a possible link between Britain's most active guerrilla group, the Basque separatist group ETA, and the anti-fascist group GRAPO—after the murder on Friday of an army general and his aide in the city.

Egyptians quit

The 340-strong Egyptian team at the third African games in Algiers left for home last night after a brawl with the Libyan team. The Egyptians were expelled from the soccer tournament by the African Football confederation after the incident.

Briefly...

Overnight trains and sleeper services from Euston are cancelled last night because of industrial action by Warrington signallers.

Four bombs exploded in Athens last night, the fourth anniversary of the restoration of democracy in Greece. No one was hurt.

Weekly 150,000 Premium Bond 12s was won by bond number W 273410. The winner lives in Buckinghamshire.

BUSINESS

BL Cars plans 7,000 jobs cut

BL CARS is expected to open talks with unions within the next few weeks on plans to shed about 7,000 jobs by the end of the year. It hopes to achieve this by natural wastage and voluntary redundancy.

The blow will be softened by a recruitment programme, now gaining momentum, to attract about 2,000 men to meet the company's shortfall of skilled labour.

BL, formerly British Leyland, is to lease an office block in Hammersmith, West London, as its new corporate headquarters. Back Page

LATEST CONSUMER confidence survey shows people feeling less confident about the future than six months ago, in spite of better news about prices. Page 29

GOVERNMENT is expected to publish this week its detailed proposals for new legislation on supervision of the banking system.

For the first time in Britain, the new law will set up a system of licensing for all deposit-taking institutions. Back Page

PROGRESS in establishing new EEC rules for regulating banks is expected to speed up shortly, with the creation of a new advisory committee of supervisory authorities. Page 3

CBI launched an initiative aimed at increasing the number of MPs with direct experience of working in industry. The Confederation also endorsed calls from a wide range of pressure groups for fundamental changes to the European Common Agriculture Policy. Back Page and Page 3

Sugar pay pact details sought

BRITISH SUGAR Corporation is being asked by the Government for details of a pay settlement which provides 5,500 employees with 9.5 per cent increases after the 5 per cent guidelines of Phase Four come into force. Back Page

CONSTRUCTION companies operating in Nigeria, Britain's ninth biggest export market, may be hit by a 21 per cent levy on their turnover. Back Page

TIMES NEWSPAPERS management, which has said that it will suspend all publication from November 30 unless it achieves improvements in industrial relations, this week will send proposals for a new dispute procedure to print union leaders. Page 4

NATIONAL SAVINGS provisional figures show that £43m was withdrawn in the five weeks to July 7. Still bigger withdrawals took place in the second week of this month, and will show up in the next set of figures. Page 3

RECOVERABLE oil reserves in the Hamilton group's North Sea Argyl Field are expected to be updated substantially as a result of the latest development well. Page 3

SECOND STAGE of the Stock Exchange's evidence to the Wilson Committee is to be published at the end of this week. Back Page

CIBA-Geigy first-half sales fell 12 per cent. Shareholders should reckon with a lower level of sales and profits this year, compared with last, directors said. Page 27

Government wants bigger share of sea oil profit

BY RAY DAFTER, ENERGY CORRESPONDENT

THE GOVERNMENT is proposing to make North Sea operating conditions tougher for oil companies. Plans being formulated in the Department of Energy and the Treasury include a substantial increase in taxation and a greater involvement in future licences by State-owned British National Oil Corporation.

Details of planned changes in the petroleum revenue tax and the final conditions for the next round of offshore licences are expected to be announced as a combined package before Parliament rises for the summer recess early next month by two Cabinet Ministers. Mr. Joel Barnett, Chief Secretary to the Treasury, and Mr. Anthony Wedgwood Benn, Energy Secretary.

In a bid to siphon off more of the big profits being made by some North Sea operators, the Treasury is planning to amend the oil taxation Act. It is thought that it wants to raise the basic rate of petroleum revenue—45 per cent levied on specially defined profits—to nearer 60 per cent. At the same time, changes would be made to the conditions of the tax which at present can be used to delay payment.

But, there seems little chance of the Government's making any changes before an autumn election. It would either need Parliamentary approval for an amendment to the oil taxation Act or a special clause in a Finance Act.

It is known that Lord Keston, chairman and chief executive of the oil corporation and one of Mr. Benn's closest advisers, is unhappy about the effect of the tax allowances, in particular the

concession which enables companies to write off 175 per cent of investment before paying the tax.

This 75 per cent "uplift" was designed to help companies meet interest charges on loans needed to pay for capital equipment. However, Lord Keston commented after one recent corporation Board meeting that the concession also acted as a benefit to the inefficient.

The Government concedes that tax and royalty payments will become significant only when capital and other allowances have been taken into account. Consequently, although North Sea oil and gas strengthened the overall balance of payments by £2.5bn last year, licence fees from tax and royalties were just £228m.

According to the Energy Department, Government revenues should approach £4bn a year by the mid-1980s.

Any changes in the taxation system almost certainly will be strongly contested by the oil companies which say that when the allowances have worked through, the total tax level—including corporation tax—will be about 70 per cent.

The Treasury and Energy Department have been concerned about the high profit levels being

Callaghan faces test on economic policies

BY PHILIP RAWSTORNE

THE GOVERNMENT faces a severe political test in the Commons this week of its economic policies on which its General Election campaign largely will be based.

The series of conflicts over the phase four pay policy, dividend control and unemployment is regarded as a crucial dress rehearsal for an autumn poll.

Two defeats for the Government are almost certain—on the dividend control Bill and, tonight, on an order which would extend job protection to dockers in the smaller ports.

The Prime Minister is expected to lead the Government's vigorous defence of its counter-inflation proposals in the debate tomorrow on the pay White Paper.

A Government motion, outlining the anti-inflation policy achievements of the last four years, calls for further sustained national effort.

Mr. David Steel, Liberal leader, confirmed yesterday that his MPs would back the Government's 5 per cent policy. "We need for severe wage restraint although we don't like the methods being used by the Government."

The Lib-Lab pact will ensure a Commons majority for the Government's general policy.

But, Mr. Steel re-emphasised that in the absence of statutory controls on pay, Liberal MPs would oppose dividend control legislation which the Government hopes to get through the Commons in one day on Thursday.

Legal restraints on dividends would be unfair and would hit the pension funds in particular, he said. "Most companies would accept voluntary guidelines on dividends as on pay."

Without Liberal support, the Government's chances of enacting the Bill appear remote. The outcome now rests on the votes of the Scottish Nationalists, who are divided on the issue, and on the Ulster Unionists.

Labour's strength may be further sapped by sickness—four Ministers were in hospital or convalescing last week.

The Conservative whips have refused pairing arrangements. As a result, the Government has recalled Mrs. Shirley Williams, Education Secretary, from a visit to China shortly after her arrival at the weekend.

Ministers view the prospect of defeat on the Bill with some equanimity.

The Cabinet has decided that in such an event control will be exercised through the placing of Government contracts and aid.

At the same time, Ministers believe that opposition by the Conservatives, Liberals and others to such an important feature of successive pay policies will bring the Government some political bonus.

The Opposition's moves would be cast as an attempt to sabotage the Government's counter-inflation policy in general.

Any excessive dividend payments—as well as any high wage claims which they could be shown to have encouraged—would be laid at the Conservative door.

The Conservative shadow Cabinet meets tomorrow to decide tactics for countering this political threat and to lay down the main lines of its alternative approach.

Mrs. Margaret Thatcher and Sir Geoffrey Howe, economics spokesman, recognise that they must spell out in greater clarity the attitudes that an incoming Tory government would adopt.

Federal system proposal, Page 3

Benn calls a meeting

AS MR. CALLAGHAN and his senior Ministers prepare for this pre-election struggle in the Commons, the Labour Party's Left-wing will seek to establish a stronger base from which to influence the party's election manifesto.

Mr. Anthony Wedgwood Benn, Energy Secretary, has called a special meeting on

Thursday of the national executive's home policy committee to consider the results of the joint working parties on election policies set up by the Cabinet and the executive.

The committee's conclusions will be set out in a paper and pressed on the Prime Minister as guidelines for the drafting of the manifesto.

Norsk, DSM bid for Conoco's chemical interests in UK

BY KEVIN DONE, CHEMICALS CORRESPONDENT

TWO BIG West European chemical companies have emerged as the front-runners in the bid to buy Continental Oil's chemical interests in the UK.

Norsk Hydro and DSM, the Dutch state-owned chemicals group, are both understood to be seeking to take over Conoco's share in Vinatex and Staveley Chemicals.

The U.S. oil company has been negotiating with potential buyers for more than two months and a decision is expected in the near future.

Vinatex is half owned by Conoco and half by Staveley Chemicals.

Conoco also has a 10 per cent share in Staveley Chemicals, which is jointly owned with the National Coal Board (45 per cent) and the British Steel Corporation (45 per cent).

The attraction of such an acquisition for both Norsk Hydro and DSM is the prospect of building up their share of the British PVC (polyvinyl chloride) market.

PVC is one of the most widely used plastics in Western Europe. It is manufactured from VCM (vinyl chloride monomer) an intermediate chemical for which both Norsk Hydro and DSM have been building new plants.

The half stake in Vinatex would offer the two companies a captive market for part of their VCM capacity.

Capacity

Norsk Hydro, for instance, has recently completed a 300,000 tonnes a year VCM plant at its new petrochemicals complex at Bamble. But its plans to build a PVC plant in Denmark have been thwarted by environmental opposition, and it is thought to be keen to secure new outlets for its VCM.

Vinatex has a PVC capacity of only 60,000 tonnes a year, but the company received planning permission this year to double the size of the plant.

Existing UK producers of VCM and PVC are understood to be unhappy at the thought of added competition from strong Continental rivals at a time of

serious overcapacity and weak prices.

Exploratory talks have been held by Conoco with both Imperial Chemical Industries and BP Chemicals, the dominant domestic producers.

ICI has a special interest in the future of Vinatex. It is the existing supplier of VCM to the company and is building a further 150,000 tonnes-a-year VCM plant at Teesside. But it is known to be concerned at the market prospects for this new plant.

The boards of both Vinatex and Staveley Chemicals are due to meet this week, and senior officials of Conoco's chemicals division are expected in the UK.

Whichever buyer Conoco chooses, the decision will be vetted closely by the National Coal Board and the British Steel Corporation, which have the opportunity to make a pre-emptive bid.

The Coal Board is keen to maintain its foothold in the petrochemicals industry and is seeking a partner committed to the expansion of Vinatex.

Retain currency guideline says Healey

By Peter Riddell, Economics Correspondent

MR. DENIS HEALEY, the Chancellor, will try today to persuade his fellow-Common Market Finance Ministers to continue to have their further work on currency stabilisation on the guidelines they agreed a month ago.

These outline conditions are preferred by the British as a starting point for discussion to the specific and controversial Franco-German plans unexpectedly tabled at the Bremen summit of EEC Heads of Government a fortnight ago.

The French Government is known to be determined to press ahead with its particular scheme, which it will want to keep to the fore in detailed studies.

The British see today's meeting in Brussels as relatively low-key, though they believe it important that precise guidelines be laid down for the parallel work of the monetary committee of officials.

Mr. Healey, in common with the Prime Minister, supports the general goal of currency stabilisation, but has reservations about the particular Franco-German scheme.

Consequently, he believes that future discussions should be based on the broad criteria agreed by the Finance Ministers in Luxembourg in June, against which the Franco-German plan can be compared and tested.

Symmetry

The points agreed in Luxembourg were that any currency stabilisation scheme should ensure symmetry of adjustment between countries with current account surpluses and deficits; that it should permit adjustment of parties to reflect fundamental divergences of inflation rates; and that there should be adequate supporting credit facilities.

The UK pressed for an increased transfer of real resources within the EEC. It has now become clear that Britain's main concern will be to improve the existing machinery of transfers within the Community, notably the Common Agricultural Policy and the regional fund, rather than try to devise new schemes.

It is expected that today's discussions will not be on a detailed level but will concern important procedural matters.

Begin rejects Sadat call to withdraw

BY DAVID LENNON

TEL AVIV, July 23



MENACHEM BEGIN "One-sided step unthinkable"

ISRAEL today rejected President Sadat's request for the return to Egypt of two areas in Sinai as a unilateral gesture of goodwill, thus weakening the prospects for a successful new round of direct talks which the Americans had hoped to get started within two weeks.

"No one can do anything for nothing," said Mr. Menachem Begin, the Prime Minister, in a statement after a six-hour Cabinet meeting. "A one-sided step is unthinkable. However, Israel was ready for talks about both countries' proposals."

The latest Israeli move is bound to cast a shadow over hopes for progress in the Middle East peace negotiations, revived by recent meetings between Egyptian and Israeli leaders.

Mr. Begin said that the Government had accepted the suggestion by Mr. Cyrus Vance, U.S. Secretary of State, that Israel and Egypt should send their Foreign and Defence Ministers to a meeting at an American early warning station in the Sinai buffer zone today's Cabinet decision, however, is hardly likely to make such a meeting a success.

Sinai deal

President Sadat has said that his agreement would be dependent on some new Israeli ideas, but none has so far emerged.

Mr. Alfred Ahterion, the U.S. envoy, said that Israel must accept the principle of withdrawal from the occupied West Bank as a precondition for resuming peace negotiations with Egypt.

He added that the meetings he headed in Britain last week between the Egyptian and Israeli Foreign Ministers had not narrowed fundamental differences.

Bitter attack

Roger Matthews adds from Cairo: Mr. Sadat yesterday launched his most bitter personal attack on Mr. Begin. He said peace could be achieved in a matter of hours if it was not for the "expansionist ambitions" of Mr. Begin. "It is possible to establish peace in the Sinai, yes; recognition, yes; but land, no; sovereignty, no, no, and a thousand times, no."

Mr. Sadat went on to stress that he was not rejecting Israel's peace proposals because of personal antagonism for Mr. Begin. Although Egypt rejected a separate settlement with Israel, it remained responsive to any new ideas.

It was suggested at the Cabinet that Israel might consider handing over parts of Sinai in return for Egyptian agreement to Israel seeking its settlements planted in the peninsula. But it was decided that such exchanges could be arranged only in direct

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OVERSEAS NEWS

Syrian guns pound Christian Beirut

BY ISHAN HAJAZI

BEIRUT, July 23.

The security situation took a turn for the worse as fighting raged today in Lebanon between Syrian troops and Christian militiamen in the hills overlooking the capital. The echo of explosions could also be heard in various parts of Beirut, as rocket launchers and mortar guns were used by the Syrians serving with the Arab League Peace-keeping force.

The Christian town of Al Badass was the scene of the new clashes, which broke a 12-day period of quiet.

The militia of the National Liberal Party of former president Camille Chamoun is the dominant political force in Badass.

Tension had been mounting there after the reported murder of two Syrian soldiers. Another soldier was wounded when a supply lorry he was

driving was fired on by the militia, a communique by the command of the peace force said.

Christian leaders have urged President Elias Sarkis to replace the Syrians in the capital by units of the Lebanese army. Observers noted the intensity of the shelling last night showed the Syrians have not been deterred by Israel's recent threat to come to the help of the Christians.

Sadat to form new party

BY ROGER MATTHEWS

CAIRO, July 23.

EGYPT'S FORMAL political structure is to undergo another major change, the main effect of which will be to concentrate more power and responsibility in the hands of President Anwar Sadat. During a speech yesterday to mark the 26th anniversary of the 1952 Revolution, Mr. Sadat announced that he would be forming his own political party and would be relaxing the regulations for the formation of other new parties in order "to enrich and strengthen democratic life" within the country.

It is expected that the post of Prime Minister will be abolished and that fresh elections to the 380-member People's Assembly will be held in the autumn. Mr. Sadat as President and the certain majority leader of the new Parliament will then take responsibility for the day-to-day running of the nation.

The President's decision is his response to the bitter political wrangling earlier this year since when he has attempted to curb some of his more outspoken critics. Both left and right-wing parties had been accused by Mr. Sadat of launching campaigns

against the Prime Minister, Mr. Ibrahim Sidani, and the Cabinet with the aim of creating conditions under which they could seize power.

Mr. Sadat's political opponents had in turn accused him of trying to stifle democracy and impose a personal dictatorship. The right-wing New Wafd dissolved itself in protest at the President's actions while the left-wing Unionist Progressive Party has frozen its activities. This leaves only the tiny Centre-Right Liberal Socialist Party and the majority Arab Socialist Party.

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party, and a new "left-wing" party that will effectively replace the Unionist Progressive Party.

The Central Committee of the Arab Socialist Union, that under President Gamal Abdul Nasser and until 1976 was the only political organisation permitted, will be dissolved, but will be reconstituted as a supervisory body to meet once a year on the anniversary of the 1952 Revolution.

Throughout his speech Mr. Sadat reiterated three points: that he would fight for democracy and would deal with anyone who threatened the security of the people; that there would be no return to the one-party system, and that a Code of Ethics would have to be drawn up in order to safeguard the principles of democracy. The Code of Ethics is likely to emerge from the "National Debate" which Mr. Sadat launched after his 98.29 per cent victory in the May referendum. The referendum was called specifically to give him the extra authority needed to carry out his plans before dealing with the critics.

Ethiopian army thrust in Eritrea

By Dan Connell, in Eritrea

ETHIOPIAN forces have broken through Eritrean Liberation Front (ELF) lines in Eritrea's heavily populated central highlands and are driving deep into guerrilla-held territory.

The large mechanised Ethiopian force yesterday captured the ELF-held town of Adi Quala and now threatens the ELF-held city of Mendefera 60 kilometres inside the strategic Red Sea territory, according to reports reaching the Sudanese capital.

Ethiopian units are also reported to be thrusting into South-western Eritrea on two fronts from government bases in Ethiopia's Tigre and Gondar provinces after over-running ELF positions along the border last week.

ELF resistance appears to be crumbling throughout the areas under their control as every major city in their hands is now under immediate threat by the advancing Ethiopian forces.

A spokesman for the Eritrean People's Liberation Front (EPLF), the larger of the two Eritrean independence movements, says that all is quiet now in EPLF-controlled areas after a series of major assaults by the Ethiopians which he says were defeated by the EPLF.

Now in the sixth week of the largest military offensive launched in the 17-year Eritrean war, the Soviet and Cuban-backed Ethiopian Government appears to be concentrating its efforts on winning back the central and south-western areas of Eritrea from the ELF.

Government victories in ELF areas would mean the loss of a series of major assaults by the separatist EPLF with further attacks against their former secure rear areas.

The EPLF occupies the northern Eritrean lowlands, much of the central highlands including the Red Sea coast, and the south-eastern regions of the 100,000 square kilometre former Italian colony.

The EPLF spokesman claims that Ethiopia has now committed close to 200,000 troops to the present offensive. Two bases along Eritrea's southern border and from government-held garrisons inside Eritrea.

A lengthy period of intense battle will have a profound political impact on the parties involved, which may well be the determining factor in the eventual outcome of the war.

More than mere territory is at issue. Both sides have staked their political existence on their ability to bring about a military victory. The Eritrean side is the insurgent and already there are claims that the ability of Ethiopia's ruling military Dergue to prosecute the offensive is being threatened by political inactivity over the direction of the war.

Diplomatic sources based on the Addis Ababa capital say that Dergue chairman Mengistu Haile Mariam is fighting an intense rear-guard action against Soviet-backed efforts to limit him. Inside Eritrea the effects of the fighting are also causing important shifts in the leadership of the divided independence movement.

For Mengistu the Eritrean campaign is a race against time. Facing a deteriorating economic crisis, continuing political instability, the Eritrean nationalist needs a quick victory in Eritrea to assuage his critics and consolidate his own shaky power base.

With both agricultural and industrial production reported steadily declining in Ethiopia, some experts are now predicting a famine there which could reach the dimensions of the 1973 drought, that helped bring about the downfall of the late Emperor Haile Selassie.

The disruption of commerce between rural and urban areas is also causing a transfer of hunger to the cities—with an attendant rise in political instability there.

Demanding pay

There are also reports that soldiers of the peasant militia—now estimated at between 150,000 and 200,000 men—are demanding higher military wages. It is claimed here that desertions have risen since they have been receiving only the equivalent of \$10 per month, often two or three months late.

Workers and civil servants are also reported to be demanding wage and salary increases to keep pace with wartime inflation.

Diplomats say the Soviet Union has lost confidence in Mengistu's leadership and wants to see him replaced by a civilian government under the now suppressed Meleson party in the short term. Soviet support is apparently being thrown behind Lieut. Legesse's political committee and the second ranking member of the current government, according to these sources.

The struggle for power, according to this view, will focus on the question of who will lead an official Ethiopian political party and who will head the government after the end of the formation of such a party and the declaration of a Democratic Republic of Ethiopia are scheduled to be announced.

China-Vietnam talks

HONG KONG, July 23.

Vietnam has agreed to open talks with China on the exodus of Chinese refugees across the Vietnamese border. Hanoi radio reported today. The Vietnamese Government has suggested that negotiations could start in Hanoi on August 5.

The Vietnamese response comes four days after China proposed talks in either Peking or Hanoi.

Reuters

U.S. and Japan compete to aid China oil development

BY OUR FOREIGN STAFF

UNITED STATES and Japanese oil companies are competing for the right to participate with China in the exploration and development of considerable offshore oil and gas reserves.

In Washington it was reported that four U.S. oil companies have been invited to Peking to discuss co-operation, while talks are also taking place with the Japan National Oil Corporation.

Japan has been told that China plans to develop the resources in the East and South China Seas for export and that it needs to obtain foreign technology to do so. News agency reports from Tokyo suggest that Japan is regarded as the most desirable partner.

U.S. State Department officials consider it most unlikely that President Carter's decision earlier this week to put all oil technology sales under Government review would result in a ban on any export licences to China as the President's action was aimed at the Soviet Union.

The Administration is keen to accelerate trade links with Peking, and earlier this month U.S. Department of Energy representatives visited China as part of a high powered Government delegation.

Executives from Pennzoil of Houston visited Peking last month, and teams from the three other companies—Exxon, Union Oil of California and Phillips

Petroleum—are to visit the Chinese capital separately in the next month.

The U.S. Trade Council, asked by the Chinese to arrange the visits, says the discussions are only preliminary and that it is too early for the companies to be aiming any competitive bids for any specific deals.

But the council is optimistic that China, pledged to increase its annual production from 90 million tonnes last year to 400 million by 1990, will eventually buy U.S. technology and expertise. It has already bought some U.S.-built offshore rigs.

Last autumn a Chinese delegation visited U.S. oilfields ranging from the Gulf of Mexico to Alaska.

Peking mission for Australia

BY JOHN HOFFMANN

PEKING, July 23.

CHINESE metallurgical authorities are making arrangements to send a mission to Australia following the successful visit to China this month of an Australian iron and steel group.

The composition and itinerary of the Chinese delegation are uncertain but an invitation from Australia has been accepted and the visit is likely to take place in August.

The Chinese group will be eager to study Australia's exploitation of its ferrous and non-ferrous mineral resources.

It could be followed later in the same month by a purchasing mission with short term orders for high grade Australian ore and finished steel.

If Australia wins sales—and handsome contracts are likely—they will be the first since the injection of optimism which followed negotiations in China by Mr. Lynch, the Minister for Industry and Commerce, last May.

Short term contracts for ore and steel are not new. China has dealt with Australian producers on a quarterly basis for several years.

However, Chinese authorities have recently shown a willingness to consider longer term arrangements.

In a further acceleration of activity between iron and steel interests in China and Australia, a delegation of Chinese iron and steel executives, headed by Mr. J. A. Innes, a director and general manager of Iron Pty Ltd., returned to Australia a week ago after an intensive study of China's mines and steelworks.

Australian trade officials in Peking said that few foreign groups had been granted such a thorough view of the industry.

Chinese authorities, who in the past had regarded Australia only

as a supplier of materials, were impressed with Australia's grasp of advanced metallurgical technology. This had probably influenced the speed with which China was assembling its return to the world market.

China's plentiful but low-grade ore creates quality problems at the bottom end of the production line and Chinese steelmakers agree that they have much to learn about beneficiation and sintering processes.

The possibility of Australia's trading its expertise, perhaps as part of a materials and know-how package, is a new element in Sino-Australian arrangements.

A further prospect which emerged during the visit of the Innes mission is that of a Chinese demand for Australian coking coal. China was noncommittal about the prospect but agreed that increased production of higher quality steels might demand a better grade of coking coal than China itself produces.

The proportion of combined carriers operating in the oil trades dropped again last month, John I. Jacobs and Company, shipbrokers said. This was likely to have been a reflection of the depressed oil market rather than an improvement in the dry cargo sector.

Rates in dry cargo trades continued to move downwards last week. The rate for grain cargo between the Gulf and Japan on a 50,000 ton vessel fell to \$10 compared with \$10.75 the previous week.

There was better news for owners trading out of the Mediterranean last week. Rates improved marginally, with a 140,000 ton vessel fetching a charter to the U.S. East Coast at Worldscale 35.

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Abu Dhabi oil deal

ABU DHABI, July 23.

ABU DHABI and three foreign oil companies today signed a \$1.8bn project to collect, process and export natural gas from the emirate's offshore oilfields.

Under the 30-year agreement, the State-owned Abu Dhabi National Oil Company will have a 68 per cent holding in the new venture, with Shell and the Compagnie Francaise des Petroles each holding 15 per cent and the Lisbon-based Parix the remaining 2 per cent.

Reuters

Steel mill mission

By Our Own Correspondent

ISLAMABAD, July 23. A DELEGATION headed by Mr. Ghulam Ishaque Khan, Pakistan's Finance Minister, left today for Moscow to negotiate more funds for the country's steel mill being built with Soviet assistance. The mill, near Karachi, has cost over \$1bn and is said by officials to need another \$260m before completion.

And the people of Caruaru, a municipality of 75,000 inhabitants whose only access to the outside world is by boat, living with ghosts of the 18th century Amazon rubber boom and subsequent bust, are taking a new lease on life.

If the Jurua field proves to be a commercial proposition, Petrobras will build a pipeline from the jungle depths to the Jurua River (navigable 100 km round) and ship the oil on rafts.

Meanwhile, four foreign oil companies now that Petrobras has found oil in the jungle, are reported to have sounded out possibilities of risk contracts there—only offshore areas are available for risk contracts—because of the Amazon mud, where Shell is reported to have found "encouraging signs" in its probes there.

But the discovery means a total review of Petrobras's Amazon programme. Probing through the obstinate, disease, however costly in time with only 11 metres drilled a day compared with 30-50 metres in less resistant sedimentary areas, has paid off.

Indeed, Jurua-1, after further probes of its chambers, yielded natural gas at a measured rate of 360,000 cubic metres a day. What rushed to the surface was originally thought to be a condensation of natural gas and natural petrol.

World Economic Indicators

Authority (telephone number in parentheses)

Annual gross interest payable Minimum Life of bond

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U.S. interest rates 'danger'

By David Buchanan

WASHINGTON, July 23.

MANAGEMENT of the U.S. economy is "at the danger point" where any substantial further tightening of interest rates would seriously affect the general level of business activity, and sectors like housing, Mr. Michael Blumenthal, Treasury Secretary, said today.

But Mr. Blumenthal, in a television interview, said he thought the Federal Reserve Board was well aware of the danger. Up to the end of last week the Federal Reserve, concerned that over-rapid increases in the money supply would fuel inflation, was still acting to raise interest rates.

The Treasury Secretary saw no evidence that what has been the longest sustained U.S. business recovery since the Second World War would end in recession.

Trends in company inventories and housing and car sales, he said, did not point that way. Figures released last week show that the U.S. economy grew at an annual rate of 7.4 per cent in the second quarter of 1978.

Constituting mainly a rebound from a very bad first quarter of the year, that was slightly disappointing to the Administration which hoped for even better figures. But Mr. Blumenthal still thought that annual growth of 4 per cent or slightly less could be achieved for the foreseeable future.

He conceded that inflation, at over 10 per cent annual rate between April and June, was worrying. But he ruled out compulsory wage and price controls.

Caution on oil find by Texaco

By David Lascelles

NEW YORK, July 23.

THE UNITED STATES' newest offshore exploration area, the Baltimore Canyon off the coast of New Jersey has shown traces of oil or natural gas, according to an announcement from Texaco.

But with two dry holes already logged in the area since drilling began in March, the company is anxious not to raise false hopes.

Denying that it had made a major oil strike on Block 583, the company said a speedy announcement would be made after tests to determine whether hydrocarbons existed in commercial quantities.

Portuguese coalition split over health and farming

BY OUR OWN CORRESPONDENT

LISBON, July 23.

SIX MONTHS after taking power, the ruling Socialist-Conservative alliance, split by a row over farming and health policies, is showing signs of possible collapse.

At the head of the Socialist Prime Minister, Sr. Mario Soares and the Conservative leader, Sr. Diogo Freitas do Amaral are playing down the crisis, hopes are fading of saving the alliance in its present form.

Both the conservative Christian Democrats (CDS) and the Socialists are discussing the problem with their national party executives and are expected to make announcements soon.

Both leaders have had extensive consultations with the President, General Antonio Ramalho Eanes.

Press commentary today was gloomily predicting the exodus of CDS Ministers from the alliance and the collapse of the Government.

But the picture is not as simple as that. Even if the CDS, junior partner in the administration, pull out, there are several options.

Sr. Soares could continue in office with independent Left-wingers filling the vacant post until Parliament reopens in the autumn.

Meanwhile, Sr. Admiral Américo Thomaz, aged 83, Portuguese President overthrown by the 1974 coup, returned from exile in Brazil today. A relative said he would rest with his family outside Lisbon.

OAU defers the issues

BY JOHN WOODRALL

KHARTOUM, July 23.

CRUCIAL ISSUES dividing Africa have been shelved, OAU chairman, which will report back in a year.

A conciliation committee looking at Sudan-Ethiopian relations, was told to continue its work.

Hopes that conflicts in the Horn of Africa would be tackled strenuously were disappointed. A resolution by Guinea proposing a ceasefire in the Somali-Ethiopian conflict, a withdrawal by both sides in three miles inside each border, and the creation of a mediation committee, was accepted by President Siad Barre of Somalia.

But was rejected by Ethiopia on the grounds that guerrillas backed by Somalia were fighting miles beyond the border.

The only issues on which the OAU could agree wholeheartedly were backing liberation movements in Zimbabwe, Namibia and tightening embargoes on South Africa.

More aid to the guerrillas was approved and there is to be another attempt to mount an oil embargo against South Africa.

Mr. Edem Kodjo, Togo's Foreign Minister, was elected OAU secretary-general in succession to Mr. William Eteki of Cameroon.

Greece plans transport reforms

BY OUR OWN CORRESPONDENT

ATHENS, July 23.

THE GREEK GOVERNMENT intends to draw up an ambitious ten-year programme dealing with seven major transportation projects crucial to the future development of the Athens area.

The decision was taken after three lengthy meetings held this month under the chairmanship of the Prime Minister, Mr. Constantine Karamanlis.

The projects concern the new Athens international airport in Spata, 23 km east of the Greek capital, will cost an estimated \$500m, which some \$11m will go towards preliminary studies for the project. The funds for the whole project are expected to come from the sale of the land on which the present airport of Hellinikon is located, some 10 km from the centre of the Athens area.

The present airport will be modernised to meet the needs of air traffic until the year 1986 when the Spata airport is expected to be ready. The Spata airport will have two parallel runways of 4,000 metres which will be 1,675 metres apart with an option for a third runway. In 1980 it is expected to employ 25,000 people and serve 16m passengers. According to the

plans, the projected Athens underground system will carry passengers to the new airport from the centre of Athens in 15 minutes.

The underground itself will have two lines covering a total distance of 27 km and will help decongest traffic in the centre of the city. The preliminary study will be ready in 1979 and actual work on the project is expected to begin in 1981.

The Government would like to see at least part of the underground in operation by 1985. The cost of the whole system and the extension of an existing electric railway line is estimated at \$880m.

To modernise urban transport, the Government plans to import 1,500 new buses, in addition to 300 recently ordered from Hungary. The cost of these buses and relevant facilities, such as garages is put at \$138m.

BY RAY DAFTER, ENERGY CORRESPONDENT

Stockbrokers Wood, Mackenzie, in its North Sea report published today, says that on the basis of the latest well, and assuming that two more wells are successful, it is increasing its estimate of recoverable

Fulmar lies in British waters, about 35 miles northwest of the Argyll find and just 20 miles

BY MICHAEL BLANDEN

the British Commissioner who has responsibility for financial institutions. As new regulations are introduced, they are likely to make a significant impact on UK banks. The Bank of England able to regulate particularly to their retain its non-statutory systems

guidelines for the individual countries to follow, without inhibiting their freedom to adopt their own particular style of regulation. In particular, it left the Bank of England able to retain its non-statutory systems

other than a strike. There would be no limit on the number of days for which compensation was paid provided there was not more than one week's continuous lay-off.

There would be no limit on the number of days for which compensation was paid provided there was not more than one week's continuous lay-off.

Lloyds Bank Group

BY ADRIENNE GLEESON

National Savings Bank's investment accounts this time last year, is working in the opposite direction.

Partly because of these withdrawals—which resulted in a net outflow from investment

BY PHILIP RAWSTORNE

Such an examination could best be carried out in the all-party conference which the Conservatives had suggested

BY ELLIOT GOODMAN, CONSUMER AFFAIRS CORRESPONDENT

series of national markets, with West German farmers setting should not be such as to pre-

THE ONLY remedy for inflation
is to cut Government expenditures

Taxes on changes in capital assets by individuals or groups should be completely abolished because they impede the free flow of capital. Both these moves would lower unemployment by stimulating private investment and

He suggested that the social implications of this new technology would be to prove yet again that the land belongs to

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Building and Civil Engineering

£100m Hong Kong project

ONE OF the most ambitious highway projects in the Far East is heralded by the announcement that consultants have been appointed to study the linking of the Hong Kong islands.

An agreement was signed last week and under this Mott Hay and Anderson Far East, in association with Per Hall Consultants, Harris and Sulherland Far East and L. G. Mouchel and Partners (ASLA) will study the feasibility of linking the Hong Kong mainland with Tsing Yi Island, Ma Wan and Lantau. The cost of such a road link-up will be at least £100m.

The engineering consultants are expected to produce the results of their feasibility studies by next February and there will then be a two-year period for designs to be prepared before the award of the first contracts. Initially, ideas envisage a four-lane crossing linking Lan-

tau with the mainland and this will call for a bridge across Rambler Channel to Tsing Yi Island, a bridge or tunnel from Tsing Yi to Ma Wan Island and a bridge between Ma Wan and Lantau. Considerable development, including an airport, is envisaged for Lantau.

Bridges involved in this project will be among the largest in the world and one of them will be one-and-a-half times the size of Britain's Severn Bridge.

£4.8m for Fairclough

CONTRACTS FROM various London Boroughs and local authorities in the north west total over £4.8m for Fairclough Building.

Four London housing contracts together worth £4.8m are for houses and flats in Islington, Lewisham, Stamford Hill and Mitcham.

Work on shopping, industrial, local authority housing and hospital schemes worth over £1.7m have gone to the north western division of the company. The largest is for a superstore and shop units for International Stores at Bolton and another two are for improvements to pre-war council homes in Manchester and sundry works at the Hollinwood premises of Ferranti.

The company has also started work on extensions and alterations to Salford Royal Hospital which will cost £150,000.

Law courts at Leicester

SIR ROBERT MACPINE and Sons is to construct a Crown Courts building in Ashwell, Leicestershire, under a £3.2m contract from the Property Services Agency.

The building is to be of a reinforced concrete frame, brick

Finnegan's £2.2m for homes

CONTRACTS WORTH more than £2.2m, the bulk of which is for the construction of new homes, have been won by FPA Finnegan, main building subsidiary of the FPA Construction Group.

Barnley Borough Council has awarded a £1.1m contract for 58 homes at the New England Estate at Barnsley; £562,000 from Sheffield Corporation is for 32 semi-detached and terraced houses at Gloucester Street, Sheffield. Work on both projects is scheduled to begin within the next few weeks.

A third contract, worth more than £551,000, from Trent Regional Health Authority, is for the construction of an artificial limb and appliance centre at the Northern General Hospital, Sheffield.

Homes in London

H. FAIRWEATHER and Company, the contract building division of the Wood Hall Building Group, has been awarded a contract valued at £1.8m for the construction of 118 dwellings at Seagrave Road, S.W.6, for the London Borough of Hammersmith.

Construction will be on two sites, the last of the southern site, was previously occupied by industrial buildings. The major site will provide 29 four-person, two-bedroom units; nine-six-person, three-bedroom units and two bungalows for handicapped persons.

There will also be two groups of two-person accommodation, chiefly sheltered accommodation. The first, Category One sheltered accommodation, will comprise 38 flats in two and three storey blocks. The sheltered accommodation will be on the ground floor and first floor. A feature of the scheme will be the provision of a number of small courtyards.

On the northern site, providing Category Two sheltered accommodation, there will be 30 flats in adjoining two and four storey blocks arranged to form an "L" shape.

The total development includes landscaped areas, some of which will be used for play, with small courtyards reserved for the elderly.

£2m orders for Trent Concrete

ONE OF the largest producers of precast concrete structural components in the UK, Trent Concrete, Nottingham, has announced the receipt of orders totalling nearly £2m.

Nearly half of the total figure comprises orders for flooring components, and orders worth £800,000 have been received from Mars, the British Aircraft Corporation and British Nuclear Fuels.

The company's cladding components have attracted £350,000 worth from customers such as the Co-operative Society, Gilling and SEGAS. Cladding will also be supplied for a new computer controlled signal box at Clapham Junction.

£1.4m Portsmouth dock

LAND RECLAIMED from the sea in Portsmouth Harbour is being used to provide a £1.4m fitting-out dock. The project is part of an expansion plan for shipbuilder Vosper Thornycroft (UK) and will involve dredging of the local channel to provide a ship turning area leading from the new dock to the main navigable channel at high tide.

The detailed design, carried out by W. S. Atkins and Partners, is for a wet dock, 122 metres long, 29 metres wide and 5.5 metres deep with a removable caisson gate at the seaward end. It will provide a fitting-out

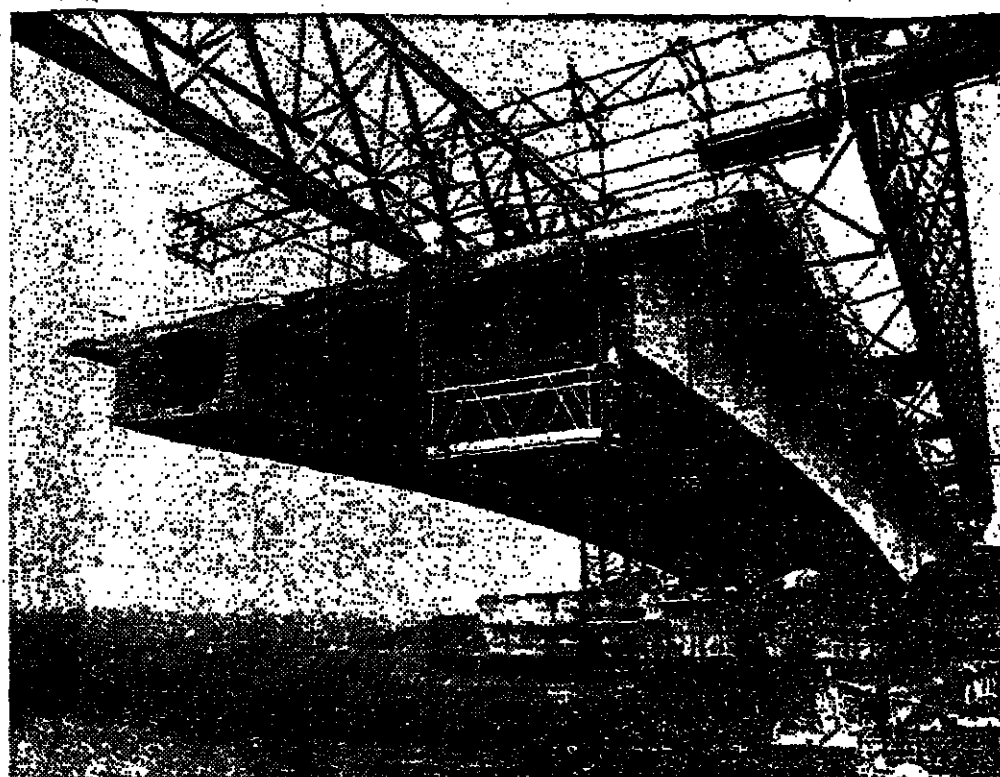
Somewhere to start

NEW PREMISES for three companies are now under construction at the Cambridge Science Park which is about two miles from the centre of the town.

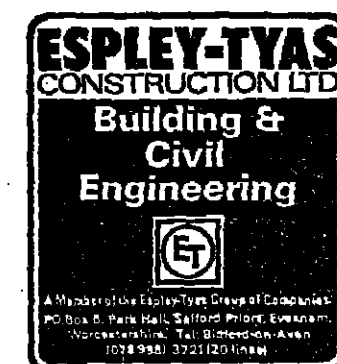
Latest companies to move in are Cambridge Consultants, which specialises in contract research and development, Coherent (UK), a pioneer in advanced laser technology and Linetech Instruments which specialises in electron beam technology.

The buildings have been designed for advanced technological activities and enable operations to be expanded without uprooting expensive research or manufacturing equipment. One company, for instance, LaserScan Laboratories, is now expanding its facilities to 16,500 square feet. This is its second expansion from the original 5,000 square feet originally occupied. The Science Park's current building programme provides for "starter units" to enable small businesses to get started with facilities available for growth. Linetech Instruments is the first company to take up the opportunity.

Agent and project manager for the Cambridge Science Park is Biddells of Trumpington Road, Cambridge.



Epoxy-jointed prestressed segmental construction is being used for the new M180 motorway bridge over the River Trent south-east of Scunthorpe. Box girder segments are cast off-site and erected by the balanced cantilever method using a specially designed launching girder. Main contractor is Cementation Construction and the pre-cast concrete deck units are being supplied by Dow Mac Concrete. Picture shows the first two completed balanced cantilevers on the east bank of the Trent.



Fairey maps Saudi Arabia

PRODUCTION OF 150 different map sheets in 1:50,000 scale covering an area of about 110,000 square kilometres of the South Arabian Region, Saudi Arabia, is being undertaken by Fairey Surveys under a contract worth £1.23m.

This contract, for the Ministry of Petroleum and Mineral Resources, represents the third and final stage of survey work in the area, the first being aerial photography and the collation of basic information.

The company—part of Fairey Holdings—first entered negotiations for this latest stage in August last year, in competition with eight other companies from the U.S., France, Japan, Holland, Germany and Switzerland.

Fun and games in Dubai

NOW TAKING shape are two very different projects designed by architects Scott, Brownrigg and Turner.

In the Gulf, in Dubai, work on the Leisure Centre and the adjacent Fruit Garden which will cost about £3m, is well under way. The latter is to be a play park for children with large glass reinforced plastic structures shaped like fruit and flowers. There will be 14 ft 6 in "apples" and 22 ft "pineapples". Ice cream kiosks are to be shaped like strawberries and "oranges" will have large mouths so that people can go inside and sit in the shade. There will also be bananas, say the architects.

Large "flowers" will intersperse the fruit and will surround the pools of the adjacent water garden which is to have a wave-making machine and a water slide.

Project manager is Trade Circle Technical Industries (Dubai) and the operating manager will be Rank Leisure Services.

Much more prosaic is the 40,000 sq ft office building being built at a cost of about £400,000 for Trafalgar House Developments at Romford, Essex. Completion is expected in January 1979. The offices, on five floors, will be open plan to receive tenants' partitioning and a bridge will link the building with a future development on the other side of the road. Main contractor is Willett.

Electronics plant

A SEVEN ACRE site in Oldham Road, Newton Heath, Manchester, is to include an office and distribution complex of 110,000 sq ft for 200 employees with room for further expansion. It will be developed by Pochin, building and civil engineering group, at a cost of £1m for Sharp Electronics (UK).

IN BRIEF

● Tilbury Group has won contracts totalling over £1m. Included is erection of new, remodelled and extended buildings for the London Borough of Wandsworth (£262,500), erection of staff amenity blocks at the Hammersmith depot of London Transport (£261,000), the Holdenhurst and Berry Hill Sludge Thickening Scheme for Wessex Water Authority (Poole) (£173,000), and a surfacing contract for main contractor W. and

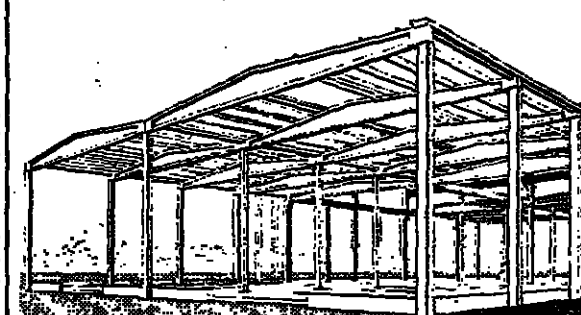
C. French involving the A120 Great Dunmow By-Pass (£213,000).

● A new multi-storey car park for 485 vehicles, part of the Cardiff City Centre redevelopment, is to be built under a contract worth about £700,000 awarded to John Laing by South Glamorgan County Council. External finishes will be of pre-cast concrete cladding panels, and the building will incorporate electronic monitoring and control equipment together with lifts and other facilities.

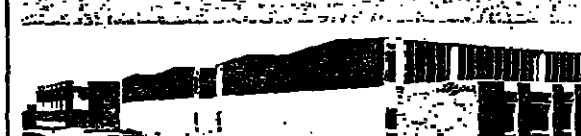
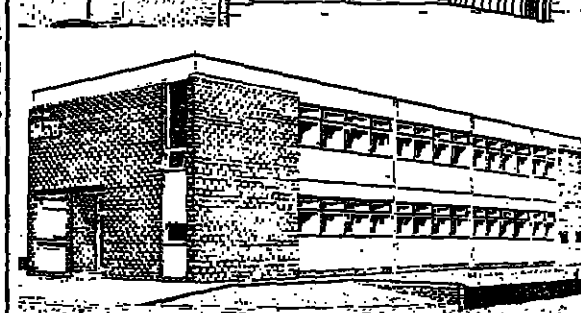
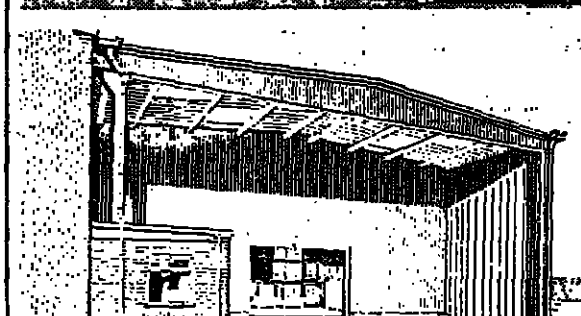
● Film Cooling Towers has won a £150,000 order from Davy Powergas for two cooling towers for large methanol plants in Siberia. The two towers will cool process water at a rate of 3,400 cubic metres per hour each in ambient temperatures down to minus 55 degrees C.

● Yorkshire Regional Health Authority has awarded a £332,000 contract to Taylor Woodrow Construction (Northern) for the construction and fitting out of a pharmacy at St James' Hospital, Leeds.

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Pipeline in Wales

THE BRITISH Gas Corporation (Wales Region) has awarded a contract worth about £1.7m for a branch contract north to Cardiff in North Wales. The McAlpine Services and Pipelines work also includes preliminary design, testing and reinstallation.

Factory in Iraq

A FACTORY offering a potential output of 120,000 sq metres of design and layout of the factory complex, details of machinery, due to open at Abu Churayb, plant and services required, and near Baghdad in the autumn the training of personnel to run under a package deal prepared by Omnia International Building Systems and White Young and Partners.



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The microprocessor and employment: the service sector dilemma

BY CHRISTOPHER LORENZ

THE GOVERNMENT'S belated realisation that microelectronics may have a dramatic impact on manufacturing industry has sparked off what amounts almost to a national panic. Hardly a day goes by without some new warning of how the "silicon chip" will boost unemployment, only to be followed by a rapid riposte—arguing either that its unemployment-creating potential in manufacturing is being exaggerated, or that the unemployment it creates will be offset by new jobs in the service industries.

Leaving aside the perennial problem that the wrong surplus skills are being made available, and, in the wrong place, for the expanding service industries (in Ebbw Vale rather than Croydon, for example), it is by no means as certain as most people think that the historical increase in service sector employment will continue through the 1980s, at least at a rate sufficient to soak up the numbers likely to leave manufacturing during the next decade.

Some of the reasons for this uncertainty have been discussed in recent papers by two leading academics. Professor George Ray of the National Institute of Economic and Social Research, and Christopher Freeman of the Science Policy Research Unit at the University of Sussex.

Writing in the latest issue of the *Journal of Futures*, Professor Ray amply illustrates how sensitive are forecasts of service employment to a host of assumptions and variables. Discussing eight possible "scenarios" for growth and productivity up to 1991, he suggests that employment in services could actually fall by up to 11m people—far more than in manufacturing—while the national unemployment rate to 16 per cent, or (on extreme assumptions) to 4.6m people.

Admittedly, this is on the

further extreme assumption that the UK catches up with average EEC rates of productivity growth: the complex ways in which EEC countries calculate productivity in the service industries may exaggerate the ground we have to make up.

All the same, the calculations severely test the conventional wisdom that a further substantial increase in service employment is a foregone conclusion. Moreover, as George Ray points out, if services do become the main growth area in the British economy, innovative activity will increase in that sector, so that labour requirements will be reduced, at least per unit output.

Where Ray and Freeman appear to differ is in the impact of microprocessors and computers on service employment. Whereas Ray obviously sees his extreme "EEC-type" scenario as unlikely, Freeman said in his recent Bernal Lecture (see this page, May 24) that the scenario could become a reality "if the full potential of the computerisation of office and distribution equipment is unleashed in the 1980s, with the large-scale displacement of secretaries, filing clerks, typists and paper-work generally."

Did not we hear all this in the 1960s, without the threatened "automated office" ever becoming a reality? Freeman argues that the situation is different this time.

A large part of the service sector is concerned with generalising, recording, processing, reproducing and transmitting information in numbers or words, he says. So far, computers have admirably affected only a small part of this system, the segment which stores and processes routine statistics.

But microprocessors are extremely small and cheap, and

ance and activities such as distribution—whatever its chances of healthy economic growth.

Though employment in banking and insurance is still on the increase at present, the banks are already automation pacesetters, and are considering pruning their branches. At the same time, automation is gradually encroaching on such distribution activities as warehousing and vehicle fleet management. Here, the microprocessor can only accelerate existing trends.

It is what Freeman calls "genuine personal services" which are the probable main areas of service employment growth—such as hairdressing and catering in the private sector, or education and medical care in both the private and public sectors.

This distinction between the employment-generating potential of different services is already widely appreciated in government, and by an agency which ought to have a key role to play in the redeployment of labour, the Manpower Services Commission.

Whether government officials would admit the consequences of this argument is another matter, however, especially if they are confronted with controversial appeals like Professor Freeman's for large-scale public expenditure on employment-creating services as an important element of full

employment strategy in the 1980s, despite the many political pressures to reduce them."

This takes us back to Britain's all-too-familiar problem. Our export-earning industries (both manufacturing and parts of the service sector, including, to be sure, hospital treatment for Arab and Tudor haquets for rich Americans) just do not produce enough wealth at present, in balance of payments terms, to support such employment-creating initiatives without landing us back in the devaluation-inflation conundrum.

Rather than being side-tracked into arguments about whether our concept of "economic wealth" should be replaced by "social wealth," as many people are when faced with these realities, we should agree that Professor Freeman's job-creating strategy is desirable, but that it will only be feasible when productivity in manufacturing and export-earning services has been improved.

To take up the recent discussion in the *Times* and *FT* about whether we are "de-industrialising" too rapidly, compared with our competitors, the key point is not the much-debated one about whether we have been right to shift so rapidly from manufacturing to services, but whether our added value per employee in manufacturing and services matches up to that of our chief competitors. Overall, it does not.

Until it does, it would be courting economic disaster to "solve" unemployment by creating new jobs in those services, especially in the public sector, which do not benefit the balance of payments. By mitigating unemployment in the short-term we would be accelerating its growth just a few years hence.

Futures, April 1978, IPC Business Press, 32 High Street, Guildford, Surrey.

Dubious comparisons in the risk business

VENTURE CAPITAL is becoming an increasingly emotive subject as politicians and businessmen concentrate on the possibilities of small emerging firms helping to reduce unemployment and assist in economic recovery.

The attractiveness of the subject has been recognised by BBC television which in the past fortnight has shown two reports in its "The Risk Business" series comparing venture capitalism in Britain and the U.S. Basically, the programmes lauded the American system and damned the UK. Which is a pity, because despite spending what was obviously a great deal of time and money on producing the programmes, the BBC managed to miss many of the relevant issues.

This is not to imply that the British system is flawless; it most certainly is not. But it hardly seems fair to compare, as did the BBC, examples where the American sources of venture capital were essentially rich and successful individuals and where British sources are solely institutional venture capitalists.

To start with, the American economic system both encourages the creation of personal wealth and, by allowing losses to be offset against tax, gives the individual reasonable odds in risking some of it in backing new ventures. In contrast, higher rates of tax in the UK and a certain hostility towards creation of personal wealth militate against encouraging personal venture capitalism. And, unlike the U.S., personal losses in this field

cannot be offset against tax.

This is an important distinction to make since it partly explains, perhaps, how Alza, a medical products company featured by the BBC managed to attract \$57m of capital before it even got a product on the market and then raised the total to \$100m before, nearing bankruptcy, it was taken over by Ciba-Geigy for \$33m. Though much of the money came via a company's inference was that a group of individuals was the source of cash.

Constraints

British venture capitalists feel constrained about making total losses on investments largely because they are using other people's money. And whether it be funds from banks, as in the case of Industrial and Commercial Finance Corporation (it also raises funds in the money markets); insurance companies and similar institutions, as with the Small Business Capital Fund; or Government money as in the case of the National Research Development Corporation, it is ultimately the general public's money which either directly or indirectly is being put at risk.

Until there is widespread acceptance that such risks should be taken it seems unlikely that greater strides can be taken by institutional venture capitalists. In the U.S., as could have been explained by the BBC, such risks by institutional venture capitalists are acceptable, as is the fact, of course, that on some of their

investments, they make very big profits indeed.

The British venture capital companies could certainly do more for their cause by trying to educate the public directly about the risks and the rewards of their business.

And perhaps they should also consider playing a more active management role. Their usual line is that they are either investing principally because of their faith in a company's management, or that the company's product is such a winner that the calibre of its management is just one element in the risk they are taking.

As the Americans have shown there are situations where an entrepreneur seeking funds is perfectly willing to take on his financier's management to strengthen his own. This was highlighted in the first BBC programme, although it could also be argued that—on a psychological level—anybody setting up his own company is much more likely to take advice from an individual who is putting up his own money rather than an executive who is putting only a company's money at risk.

Ultimately, of course, the British Government cannot be absolved from some level of responsibility if it wants to see the exploitation of technological and other innovations. If business in general requires confidence, risk business needs a super-abundance of this commodity, and to generate this a general acceptance is needed that high rewards for risk-taking are necessary.

NICHOLAS LESLIE

An eye for the healthy approach

ARISING from one of the articles in this short series, a number of questions have been put to me. Some of these are fairly simple; others less so; and a few are frankly bizarre.

Quite the most remarkable in the last category came from a man who wanted to know whether I thought that camel meat would suit him as he has a somewhat sensitive digestion. He also wished to know what precautions he might take against having to eat sheep's eyes.

It turned out that he was intending to join, and then write about, some obscure rebel band somewhere in the desert in North Africa. I really could not help much except to suggest that, as apparently camel was the only food available, he should pay a visit to his dentist to make sure that his teeth were strong and sharp enough

to cope with an old age pensioner of a camel (his friends were not likely to kill useful creatures) as it was likely to prove on the tough side.

Returning to more normal travel, apart from the serious matters discussed in the earlier articles, certain other precautions are advisable because a visit to, say, Singapore is not quite the same as a jaunt to Jarrow.

Clothing must be considered carefully. If one is going from the English summer to Indonesia, for example, it is very hard, as apparently camel was rapidly leave our green winter should pay a visit to his dentist to make sure that his teeth were strong and sharp enough

should be catered for, even if there are few places much colder than the UK in July. Apart from heat, protection against sunburn in hot countries is important, particularly for those with fair complexions. Loose clothing is advisable for flying; cramped up in a small seat when wearing tight

garments can prove most

disturbing after a few hours.

On the subject of flying, a remarkable number of people suffer real fear every time they have to embark. Expositions on the relative safety of this mode of travel is worse than useless.

Most doctors will be happy to supply small quantities of anxiolytic medicaments to cover this problem. With or without them, however, heavy drinking and while flying is not a good habit—even if the champagne is free.

Pressurisation systems in modern aircraft are fairly efficient, but people suffering

from upper respiratory infections should postpone journeys if possible, because no holiday or business deal is worth the pain and trouble that can arise from a perforated ear-drum.

Most countries in the Common Market operate a type of NHS (varying from country to country) for UK nationals.

EXECUTIVE HEALTH

BY DR. DAVID CARRICK

Forms can be obtained from Employment Agencies; but you only qualify if you are either a "worker" or a "pensioner". Naturally, self-employed people are barred from such services. Some enterprising firms have a list of doctors in many countries—doctors who are not only good but able to speak English. However fit one may be, it is not impossible to fall ill in a foreign country, and attempting to explain to "how do you do" can be vexatious and enervating. As costs tend to be pretty high; it is most advisable

to take out adequate insurance to meet all eventualities.

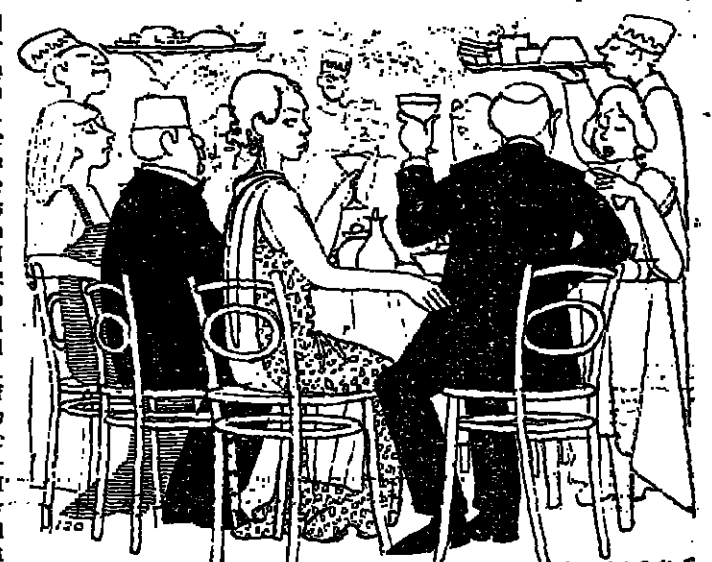
This applies to the dolorous possibility of dying abroad. The cost of undertakers and air-freight are enormous in some countries and, although the victims may be unconcerned, the burden to the relatives may be insupportable when added to their personal tragedy.

"Gippy tummy," "Delhi belly," "Calcutta flutter," or what have you, can afflict anyone. The condition is probably due to bacteria to which the natives are immune (and Germans or Italians, etc., can suffer from it here). It is important, therefore, to take a supply of medicament such as Streptotriad (on prescription only) to be taken only

if needed. This may make all the difference between a happy and a horrible holiday; a smooth business discussion or an embarrassing in and out affair.

Returning to my man and the sheep's eye problem, I heard a ghastly solution recently. The wife of a diplomat was horrified to be presented with this supposed delicacy. Protocol absolutely forbade her refusing the thing, but she knew also that if she ate it, she would make a yet more shameful exhibition of herself. Thus,

with remarkable sleight of hand, she deftly slipped it into the pocket of an aristocratic neighbour without his knowledge. What happened later? I do not know, but the very thought of putting one's hand into a pocket and meeting that cold and slippery horror would be enough to make one sign the pledge.



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RESULTS AT A GLANCE

Year ended 31st March	1978	1977
Turnover	£600	£600
Profit before tax	7,561	6,052
Earnings per share	619	604
Dividend per share (net)	13.92p	13.00p
	2.725p	2.44p

Order intake in the second half recovered strongly with the result that profits for the whole year were slightly ahead of last year, and your Board is again recommending an increase in dividend up to the maximum permissible.

Despite this encouragement the outlook is still uncertain and it is likely that our capacity will be under-utilised at times throughout the next year.

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T. MARTIN, Chairman

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ANTOFAGASTA (CHILI) & BOLIVIA RAILWAY COMPANY LIMITED

The Ninetieth Annual General Meeting of the Antofagasta (Chili) & Bolivia Railway Company, Limited, was held on July 20th in London.

In the course of his address to the Meeting, the Chairman, Mr. G. S. Stone, FCA, said:

"The results of the first six months of the year 1978 in Chili have been really quite satisfactory. The tonnage is up 5% and the net-ton kilometres by 10% which in the circumstances is good."

We increased our tariffs towards the latter half of last year and the effect of the higher traffic and higher tariffs has had a beneficial effect on our income. However, unfortunately like every other business, we have had to face higher outgoings especially on maintenance.

Another problem is that a large part of the book profit has to go towards the purchase of stores and on capital investment and is not available for distribution. For instance, the total capital investment last year was £500,000 and really we should be investing more than that each year.

Another factor affecting our cash is that we have not yet reached final agreement with all our Bolivian customers on the payment of our increased tariffs.

I had hoped to be able to report some progress on our negotiations with the State Water Entity. Unfortunately, they have now to be conducted in Santiago which will lead to further delays.

Finally, it is this Board's intention to pay off the arrears on the Preference dividends as soon as they can do so—that is, as soon as the results justify it."

The Report and Accounts were adopted.

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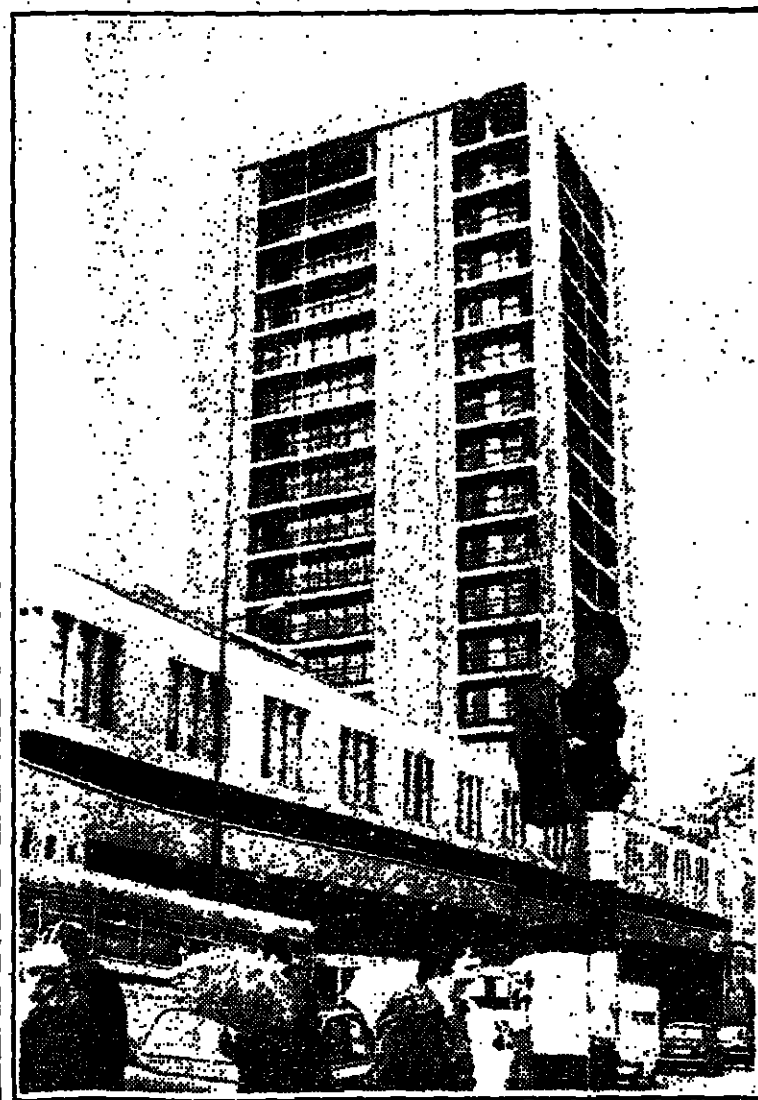
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by WILLIAM WEAVER



"Pierrot Lunaire"

Leonard Bari

seems to be a slight danger that the style of the company may be becoming ingrown. Its lesser compositions — Zoltan Inre's *Luonon*, Jasp Flier's *Episode I* — are in soft focus, and not fully chiselled. One wants to see something hard, clear, precise and exacting. But that may be merely



Verdi's Requiem

by RONALD CRICHTON

[illegible]

All change in Budapest

by FRANK LIPSIUS

[illegible]

Round House
Ballet Rambert

by ANDREW PORTER

own statements, to shape his own visions. So today in the title-role of *Pierrot Lunaire* he gives a different performance from the one I reviewed in these pages ten years ago—and a deeper one. On the simplest level, his movement no longer has the youthful, animal spirit which made him feel a need to lustre to everything he did. On a more complicated one, his own explorations, his own ballets, seem to have deepened his understanding of Tetley's early masterpiece. An interpretation that seemed almost instinctive is now clearly and richly considered. Every detail has been pondered, tested, polished. The "meaning" of each movement—both in the musical and the dance sense—the word—is more apparent. The emotion, the travel, the greater, the more the romance even more vivid.

Poet, composer, choreographer, and protagonist, have between them the dream of a new world, though the symbol is silver symbol of yearning, aspiration, sudden gaiety, innocence, disappointment, hope and wonder. Sometimes Pierrot's face seems to be that of a Mignon, and sometimes of the Harper. The piece is carefully and intricately wrought, highly sophisticated, yet directly communicative. The Rambert period is the heart of the piece, with Lucy Brown as Columbine in her various incarnations, and Leigh Warren as the forceful Brighella. The music is admirably sung and played by Mary Kean and the Royal Ensemble under Charles Darnley.

Bruce, more consistently than



Cologne

From Mozart to Henze

by ELIZABETH FORBES

The central figure of the General, above all, becomes more convincing: Victor Braun, equally believable as military hero and as suddenly converted pacifist, gives a performance that grows progressively stronger as the General's power wanes. Hugh Bedford is excellent as Second Soldier, the ordinary, decent fellow whom circumstances drive to martyrdom. David Kuebler (a lyrical Ferrando in *Così fan tutte*) is touching as the Deserter.

Sunday jazz at the Portman

The Avon Cities Jazz Band from Bristol will be playing at next Sunday's New Orleans Sunday Brunch at the Portman Hotel, London, and the following Sunday altoists/clarinetists, Bruce Turner will be appearing with his quartet.

ENTERTAINMENT

GUIDE

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Shirley-Quirk

John Shirley-Quirk's recital last night with Martin Isopp in the Wigmore Summer Festival had, as the singer himself pointed out, a Quixotic realisation. He began with Berlioz's framework for "Purcell" Let the powerful engines of eternal will" written "for D'Urfey's Comical History of Don Quixote...He ended—with two groups of verses by Paul Morand for the Paoli Don Quixote film with Shabaz Dardin and George Ray.

Is it Quixotic to find a link between Schumann and Butterworth who provided the meat in the programme? Not entirely. Butterworth, killed young and full of promise, was an English representative of the French Impressionist song-writer deriving largely from Schumann. Certainly there is a link between their respective poets, Helme and Housman, both lyrical, concise, intense, marvellous at placing words, both with flashes of searing imagery.

The Purcell, virtually a solo cantata with contrasting moods, was fetchingly done. In Schumann one noticed stretches of excellent singing slightly marred by loud sustained notes which were too hard—either hard—the voice is so malleable, so effective in this hall on what one might call musical conversation level that there seems to be no need to press. This didn't prevent a massive crescendo—"Lieb Liebchen" and "Anfangs wollte ich fast Verzaen" as well as the more extended "Schöne Weige."

The Butterworth group from A Shropshire Lad made me, not for the first time, regret his disappearance. The songs are unequal, with patches of anonymous pastoral. But there are longer patches—the central section of "Bredon Hill," O fair enough —a sudden "The Wind has been blown"—where an obstinate determination to be his uncomfortable self pokes through. Without losing the essence of the poems Butterworth firmly pushes his horizon beyond Shropshire.

Just for once it was worth hearing Ibert's as well as Ravel's: *Don Quichotte* songs—there was a muddle: both composers were invited to write for the film. Ravel withdrew but published three songs separately. But this is a once-off idea: Ibert's are better than most songs for films but only the last of the four has any life now. Ravel's, using the same Spanish idiom with incomparable subtlety, seem destined to grow better and better. Mr. Shirley-Quirk, whose French is fluent, did them admirably, particularly the moving "Chanson épique" which is the finest of the three.

RONALD CRICHTON

Thomson Smilie appointed manager of Boston Opera

Lazzio J. Bonis, president of the Opera Company of Boston, announced today that Thomson Smilie, at present director of public relations for Scottish Opera and artistic director of Wexford Festival, will become manager of the Opera Company of Boston with effect from August 15 next.

Mrs. Smilie has been involved with Scottish Opera since the beginnings of the company in 1962 and has worked full-time with Scottish Opera since 1968. Since 1973 he has been artistic director of the Wexford Festival

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Monday July 24 1978

A monopoly to be broken up

THERE WERE two related themes in the report produced a year ago by the Post Office review committee headed by Sir Charles Carter. The Post Office, as at present constituted, was too big, too centralised, and too cumbersome in its decision making; and there was a need to make managers through the organisation more entrepreneurial and more responsive to the needs of the market. The problem the committee faced, however, was that of seeing where the pressures to improve efficiency and the quality of services could come from in a business in which a very high proportion of the activities was covered by statutory monopolies. In the absence of competition, the pressures would have to be generated partly from within, and partly as the result of certain organisational changes.

Differences

The most notable of these was the proposal to split the Post Office into two wholly distinct businesses, one comprising the postal service which would retain the Giro and remittance services as a separate subsidiary with its own accounts, and the other comprising the telecommunications business, together with the data-processing service. The idea was not entirely new: it had strong support within the Post Office itself and was backed by some, though not all, of the Post Office trade unions.

In the Carter committee's view, the case for separation rested on two grounds. One was the fundamental, and widely recognised, differences between the two businesses. The postal service is labour-intensive with a relatively low demand for capital investment and has had in recent years a static or declining volume of business, while the telecommunications business is highly capital-intensive and is entering a period of rapid and far-reaching technological change. The efficient operation of each business thus depended on quite different factors. At the same time the overloading of the present single Board had, the committee concluded, inhibited sound strategic thinking. This responsibility, it suggested,

should be taken over by a new advisory council which, besides assisting the Secretary of State in policy making, would help him to monitor efficiency.

The Government has now decided to reject the idea of a council and to defer the question of splitting the Post Office. The first decision seems sensible enough. Like the earlier NEDO proposal for a series of policy councils for each nationalised industry, it would add a further undesirable tier of decision making. And, if there is a need to develop long-term communications strategies, then this is a task that should be undertaken by the Government as now happens in, for example, energy and transport.

Deferring the separation of the postal and telecommunications businesses is another matter. The Government said in last Friday's White Paper that it would prefer not to take such a far-reaching decision until it had had a chance to assess both the considerable devolution of managerial responsibility and accountability which the new chairman of the Post Office, Sir William Barlow, is now implementing and the two-year experiment in worker directors on the Post Office Board.

Attention

One would have thought that separating the two businesses at Board level would assist the aim of delegating responsibility, while the prospect of trade unionists and managers co-operating in policy-making would seem to strengthen the case for requiring greater accountability. The Government may be pushing ahead with the adoption of performance indicators and international comparisons, and it may have set cost reduction objectives in order to focus attention on the need for cost minimisation as well as profit maximisation. But, as the postal and telecommunications services are to a significant extent in competition with each other, it would be a pity to rely wholly upon substitutes for market competition when there would appear to be an opportunity to create a little more of the real thing.

Latin America and the vote

THE NEWS from Bolivia in the past few days has underlined the difficulties which often surround the process of holding elections in Latin America and of achieving progress towards a democratic government in that region. Convincing evidence was brought forward by a number of reputable foreign observers that the voting in Bolivia on July 9 was disfigured by various malpractices aimed at securing victory for General Juan Pereda, the candidate of the armed forces. That something serious was amiss was confirmed by the fact that the national electoral court reported that 50,000 more votes were cast than there were electors on the register.

The court's decision to scrap the elections and call new ones has nevertheless been impugned by some soldiers and some civilian politicians who have now succeeded in making General Pereda president despite the manifest fraud.

Anxiety

Last month the elections for a constituent assembly in Peru ran into difficulties when some of the candidates were sent off into exile, though the voting and the counting of ballots appears to have been carried out scrupulously and the Peruvian military government has since declared a political amnesty. In May elections were held in the Dominican Republic and after the voting the army moved into halt the count when it appeared that Sr Antonio Guzman, a politician of the centre, was putting up a strong challenge to President Joaquin Balaguer who has been in power in that country for more than a decade. After a great deal of political tension Sr Guzman has been confirmed as the winner but there were times in recent months when it seemed that force was going to prevail over the electoral process.

In Paraguay, where the rights of the opposition are severely encumbered, General Alfredo Stroessner has recently gained another period in power thanks to a change in the constitution which has allowed him to keep a hold on the presidency. The countries where elections

have gone relatively smoothly are in the minority. In Costa Rica the poll was fair and honest and earlier this year the conservatives ousted the middle of the road government of President Daniel Oduber without there being any question of malpractice. The poll in Colombia was a free one and there again a conservative won, the only disappointing factor being the large proportion of the population which abstained from going to the poll. In Ecuador earlier this month elections were carried out cleanly while in December there is every expectation that the Venezuelan voting will be free and fair. In much of the rest of Latin America, however, the chances of the population being able to express their opinion about who rules them and ensuring that their choice of candidate is not robbed of victory are problematical.

In some countries there is a show of democracy but behind this is little of substance. In other countries there are governments which admit they are ruling dictatorially but claim to be moving forward to some democratic system which will be introduced when they best think fit.

U.S. interest

In the past the region has never been outstanding for its respect for the rule of law and therefore the present patchy political situation will surprise no one.

What is new in the situation however is the active interest of the U.S. in changing the political climate in Latin America. With President Carter unambiguously wedded to the idea of criticising the Soviets for the shortcomings in their system it is vital for Washington to be seen to be doing its best to ensure that democracy has a fair chance in a region where the word of the State Department counts for so much. Often quietly, sometimes publicly, the Carter Administration has been encouraging the forces of democratic moderation to talk and act against the undemocratic rulers who only a few years ago seemed to have the field almost to themselves in Latin America.



FOR THE cyclists racing across the finishing line in the Champs Elysees, Paris, yesterday, the final stage of the 1978 Tour de France was the climax to three weeks of grueling riding which had taken them from Holland through Belgium, France and the Pyrenees. For T. I. Raleigh, who won the team points prize, and whose rider Gerrie Knetemann won the final stage, it marked another business success which should help to safeguard the jobs of more than 8,000 UK workers employed by the Nottingham based company.

Sponsorship of a Tour de France team is the spearhead of a marketing campaign which has seen the company make a dramatic break into European markets: sales, currently running at 230,000 cycles a year, are expected to more than double by 1981.

Raleigh, which produces 4m cycles a year—around 10 per cent of total free world sales—claims to be "the world's largest manufacturer and exporter of cycles and components." How, when Britain's motorcycle industry has collapsed and the car industry is coming under increasing pressure, has this traditional industry maintained its position?

Mr. Ian Phillips, Chairman and managing director of T. I. Raleigh Industries suggests that the company's history has been its strength. "Within the first 10 years of this century Raleigh was serving world markets and was, big enough early enough to supply all its own components." Such vertical integration distinguishes the company from other large manufacturers which, as in the car industry, tend to be assemblers of bought-in components.

Total control of the product enabled the company to place emphasis upon quality and develop a brand identity—two factors still central to management philosophy. As trade followed the flag, Raleigh quickly established itself throughout the Commonwealth. In Nigeria, for example, the bicycle is still known as "Raleigh" in much the same way that vacuum cleaners in the UK are known as Hoover.

Expansion continued into the

1950s but, as developing countries such as India and Malaysia began to industrialise, Raleigh increasingly had either to manufacture locally or grant licences. In 1960, following a recession in the industry caused partly by the trend from cycling to the motor car, Raleigh merged with its chief rival the British Cycle Corporation owned by Tube Investments.

Rationalisation of the UK industry proceeded and attention was turned to North America as the growth market. The take-off came in the early 1970s when cycling in the U.S. became a leisure and health craze. Sales more than doubled to 15m in 1973. But within 12 months the boom had collapsed, and sales slumped back to 6.5m. Production and new capacity stimulated by the U.S. demand now had to find new markets and the UK for the first time came under real pressure from imports. By 1976 foreign cycles had captured 20 per cent of the 1m domestic sales—just a few years earlier imports had been negligible.

The UK industry fought back last year to contain imports to around 15 per cent of the market and it is hoped that foreign bikes will not increase their share of sales which in the current 12 months are expected to be more than 1m. Raleigh is the dominant company taking around 60 per cent of the market with another dozen or so UK firms accounting for a further 25 per cent.

Raleigh is different from most of the world's large scale manufacturers of cycles in that around 60 per cent of the UK output is exported. Elsewhere manufacturers tend to supply the domestic market and not look overseas. For example Murray and Huffman, two U.S. companies with an annual output of around 3m cycles, export very little. Japan is an exporter but has so far concentrated its attention mainly upon North America.

The repercussions in world markets set off by the collapse of U.S. demand in 1974 had an obvious impact on Raleigh with its international activities. The company supplies 130 countries from its 11 factories around the world, in addition to minority interests and licensing arrangements.

The company was fashioned against enforcing redundancies at its main 64 acre Nottingham plant by the rapid upturn in demand from Nigeria. Raleigh had supplied the market for 50 years but in 1975 it established a manufacturing plant which required specialist supplies from the UK. Nevertheless there was need for a more fundamental appraisal of company policy. The analysis led to the decision to attack European markets and the marketing tool chosen was the formation of a racing team good enough to win the Tour de France.

Management took the view that Raleigh's cycle activities fell logically into two broad

categories: the relatively labour intensive frame-making and assembly, and the capital intensive component manufacture. The trend among developing nations is to set up facilities for the first activity as quickly as possible: for the second, they tend to lack not only the technology and the skills, but also the volume production to justify the investment.

To underline the differences, a company reorganisation saw the creation of two new subsidiaries: T. I. Raleigh with

responsibility for putting emphasis upon Europe, does not mean that Raleigh will relax efforts in other markets. Demand from Third World countries is likely to continue to grow as population and incomes rise. Even where local assembly facilities are established there is a continuing requirement for kits and the more sophisticated components.

But real hopes for growth lie with Sturmer-Archer. The company—manufacturing a whole range of components including

Japanese cycle industry which has capacity to build around 9m units a year. The first success was achieved this year with an order for three-speed hubs.

Though the components company is anxious to assert its independence of T. I. Raleigh, it naturally benefits from the publicity surrounding the racing team. The cost of the team since it was formed in 1974 to compete in Europe's top races has been less than £1m. And Collins recounts how Raleigh was approached last September by Fria, a Norwegian ski-manufacturing company. "Their trade tends to be seasonal and, rather than have salesmen idle, they decided to promote cycles in the sports shops. They came to us because of the success of our team." Raleigh sold only 400 bikes in Norway last year but expects to sell 5,500 this year.

In spite of the careful inclusion of a West German rider in its team, Raleigh has so far made little impact in a country which buys around 3m bikes a year. The market tends to be dominated by the two German companies, Knaack and Kalkoff, which between them produce nearly 1.5m units. Raleigh, with its quality image, regards itself as something of a disadvantage in Germany where cycles tend to be cheaper and there is less brand identity as nearly 50 per cent of sales are through general outlets rather than specialist shops.

In Belgium, Raleigh sales have doubled over the past three years to 32,000 and the company now claims about 18 per cent of the market. But the spin off from the Tour success has been much wider. Mr. Collins recounts how Raleigh was approached last September by Fria, a Norwegian ski-manufacturing company. "Their trade tends to be seasonal and, rather than have salesmen idle, they decided to promote cycles in the sports shops. They came to us because of the success of our team." Raleigh sold only 400 bikes in Norway last year but expects to sell 5,500 this year.

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Italian test

But the real test for Raleigh and its marketing skills is seen in the Italian market. The company, which hopes to sell 6,000 bikes there this year, claims to be the first British manufacturer to break into the market. Initially, marketing will be concentrated upon the Milan district, but the objective is to sell throughout the country.

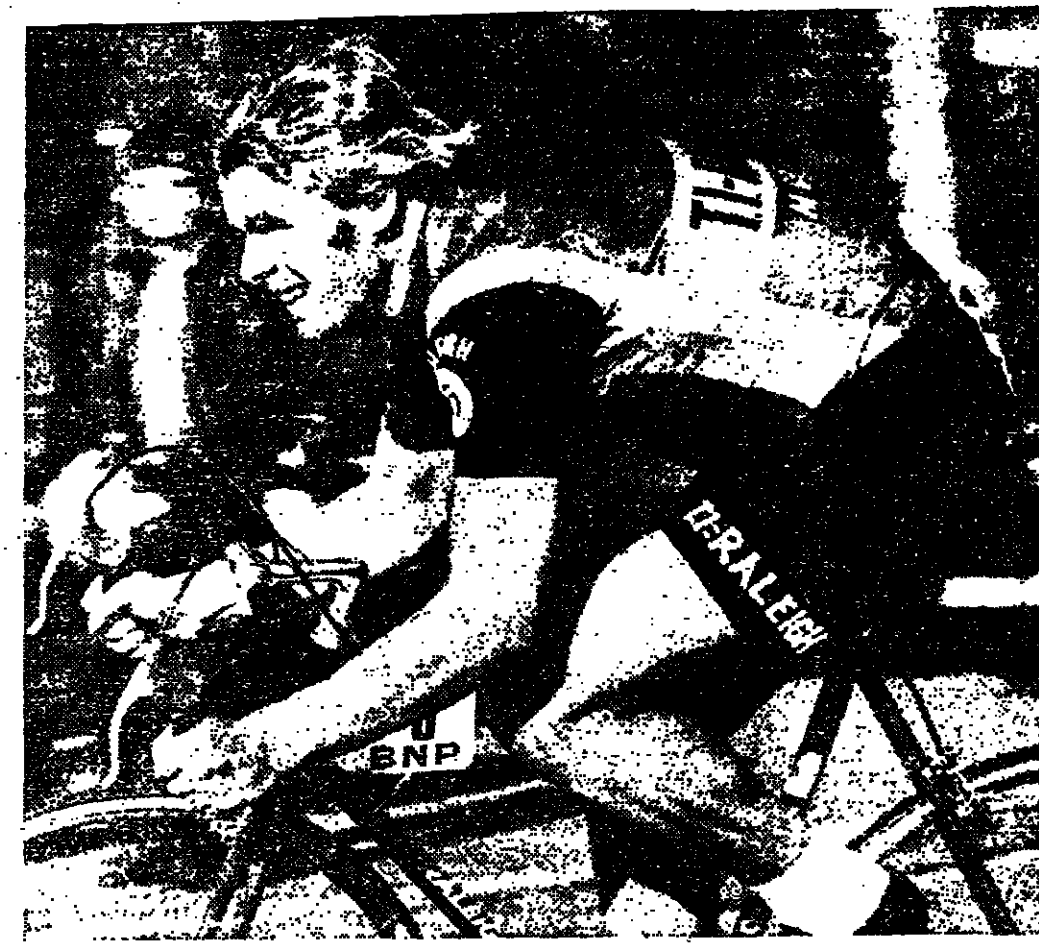
In each of the markets where Raleigh operates it tends to face different competition as the domestic manufacturers are usually strongly entrenched. Moreover, though estimated world sales of cycles are put at around \$6m, many markets are effectively closed to British companies. The Soviet Union and Comecon countries have considerable capacity and provide a minor market for components which are re-exported in finished goods.

China is again a massive market but demand for Western cycles, which usually enter through Hong Kong, tends to be only sporadic. The Japanese industry dominates the Far East, with Taiwan and Korea emerging as assemblers.

Against such a background, it is understandable that Raleigh should have turned its attention increasingly to West European markets as the way to retain Britain's traditional position as the world's leading cycle manufacturer.

Why Raleigh is still riding a winner

BY ARTHUR SMITH, MIDLANDS CORRESPONDENT



Hennie Kuiper—the Dutch captain of the T.I. Raleigh team. Last year he came second in the Tour de France but this year he retired through injury. Raleigh's team has cost the company less than £1m since it was formed in 1974.

responsibility for cycles and saddles—well spent. Last year they lifted currently supplies about 70 per cent of its output to Raleigh. The aim is rapidly to reduce that dependence not by cutting sales to Raleigh but by increasing sales to competing cycle manufacturers. For Sturmer-Archer to concentrate on supply to its sister company would be to confine its marketing to only 10 per cent of the world cycle trade. Facilities can now be offered to a Raleigh rival, such as Peugeot, for example to develop a component specific to French cycles.

Sturmer-Archer is unusual in the spread of components it offers. In Europe companies tend to specialise in particular items: Union of West Germany, for example specialises in pedals. Of the few companies that approach Sturmer-Archer in size of cycle component business two are Japanese, Shimano and Maeda. Sturmer-Archer is now making determined efforts to break into the

Continent give a wider spread of interests and greater security against a downturn in any one market. But the logic of the case

the team prize in the Tour de France, an achievement that has spread the name of Raleigh throughout Europe and, according to Mr. Ken Collins, the U.K. and Europe marketing director, increased sales on the Continent by 30 per cent.

The enthusiasm of the continental for cycle racing, particularly in France and Belgium, is difficult for Mr. Collins to understand. "But an estimated 160m television viewers each night follow progress in the Tour de France."

In France, where Raleigh only began to market in earnest in 1976, sales rose to 14,000 last year and the number of dealers mushroomed from 250 to 600 in the wake of the Tour success. This year 25,000 bikes should be sold. Having established its presence in one of Europe's biggest markets—sales are running at around 1.75m a year—Raleigh hopes to continue to

MEN AND MATTERS

Flaring at the Gas Board

My remark last week about Britons fuming as they wait for the North Thames Gas Board prompted an immediate and solicitous call from the Board's Press officer. "Are you thinking of a particular case?" Clive Thomas asked me.

Though many colleagues also complain of delays, I related Thomas with my six weeks' experience. These began when builders knocked a wall down, leaving the gas meter disconnected in mid-corridor. A supply form then had to be signed and travel from department to department before a fitter could visit to prepare an estimate. Another week or so passed before his estimate had been prepared, despatched, signed, returned and sent by the Board to their engineers. Then the Board said ten days would be necessary before the parts could be delivered and another five would install them.

Those visits required being prepared to wait at home all day. The installers, in fact, came just after the time one takes children to school and I missed them. I was lucky enough to be given another fitting date 17 days later and again expected to be able to be at home all day.

With the Board's profits just reported at record levels, I asked Thomas what was planned to make customers more satisfied. He could not give any details but he assured me customer service was an area which would be tackled. He did not know how long ago the Board's drawn-out office procedures had been designed and claimed that it was "not universal" that one had to have two visits after accepting an estimate. He thought that the Board specified whether visits would

be in the morning or afternoon—which it had not. He suggested neighbours could keep the keys but admitted often many houses are empty in day time.

As for the delays, he said there was a heavy work load. I suggested a nationalised industry might use some of its profits to reduce unemployment, but Thomas said it is difficult to lay off staff when necessary so it is better not to employ them.

He said he would have to telephone me back about the Board's recruiting plans, though I would have to wait while he turned some soil. The next evening I was still waiting. The Board teaches one patience.

Hard sell

Yesterday was a mixed day for the British motor industry. In BL, formerly British Leyland, there was concern at the leaking of the news that executives at British Petroleum are switching from BL's Rovers to Ford Granada: BP had objected to BL's blacking of their new high-grade oil, VF 7. But Aston Martin was chuckling over a minor propaganda coup as they announced the first order from the Soviet Union.

This came from the correspondent, Victor Louis—a man known for his better-than-average connections with the KGB and who now wants to buy a £20,000 Lagonda.

Louis, whose Russian name is Vitaly Yevgenievich Lui and who is Moscow correspondent of London's Evening News, was first with the news of Krushchev's sacking and of Kosygin's meeting with Chou En-Lai.

Yet Louis has shown no worry about going to the stable which in fiction supplied James Bond with his specially converted cars. Nor is he against a capitalist device in sending Aston Martin a telex asking: "Do you make a special reduction for members of the International Press corps?"

Aston Martin blandly replied that no one receives special terms and warned: "We think there would be too many problems. We have no dealers in Russia and he would have to ship the car back to Britain for its warranty service."

Mixed message

Comparing living costs around the world is a tricky business at the best of times. The data depends heavily on the judgment of those providing it and one man's "fashionable restaurant" can be another's near-poison.

Nevertheless, businessmen ask for such comparisons and the Confederation of British Industry has just obliged. The survey of living costs in 15 West European countries which it circulated this weekend is intended to be a guide to business men preparing to set up operations on the Continent.

But in public-relations terms, it has been only a mixed success. A correspondent for the Press Association going through the figures came to the conclusion that the British worker, eating his steak and chips in front of his colour television, could consider himself as well off as any in Europe.

It turns out that sport is particularly cheap in the UK, at least by European standards. A round of golf in Switzerland costs about £8—more than twice the cost at home. The entrance fee to a club near Zurich is over £5,000. Tennis is expensive, too.

The annual subscription to a club near Milan is £356—nearly nine times the equivalent in Britain.

Hunger at the top

Connoisseurs of Bolivian politics, a small group of people who tend to develop a chill sense of humour to handle the vagaries of its public life, are predicting that 1978 will be a vintage year now that it has been officially announced that 50,000 more people voted than were registered on the electoral lists for the July 9 elections.

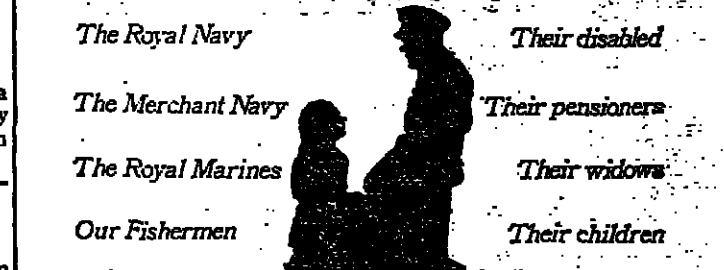
In more serious vein, they are likely to give five stars for the hunger-strike tactics of ex-President Hernan Siles Zuazo, the candidate supported by the left who was the main target of the patent electoral fraud.

The armed forces are now flexing their muscles to prevent the winner of the elections—whom the commanders back—from being ousted. But Zuazo is no novice to his uncomfortable form of protest. He carried out a hunger strike in 1975 against the policies of the government of the day. And another one in 1966.

That time he was President and wished to persuade the country to accept an austerity package—an example of "self-sacrifice" that few of Britain's Chancellors seem likely to emulate.

Military secret

An Army lieutenant tells me that when a middle-aged woman drove her Mini into the side of a camouflaged truck in which he was a passenger last week, he restrained his immediate reaction and said only: "Madam! Didn't you see us?" "See you?" said the woman. "I'm not supposed to, am I?"



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FINANCIAL TIMES SURVEY

Monday July 24 1978

Arab Banking and Finance

The Arab oil producers' surplus is growing more slowly than before because of rising imports and falling oil exports, while the debate on how to counteract the fall in the value of the dollar continues. However, the Arab financial system is rapidly gaining in sophistication.

Aims are within reach

By James Buxton

NEARLY FIVE years after the 1973-74 oil price explosion the scale of the Arab oil states' financial surplus is declining much more rapidly than most forecasters anticipated. But any reduction that this may mean in Arab influence on the World financial system is probably matched by the increasing role Arab financial institutions are playing in managing the region's funds.

The total external assets of OPEC states were estimated to stand at about \$140bn-150bn at the middle of this year. The bulk of the surplus is held by the Arab members of OPEC, mainly by Saudi Arabia and Kuwait, which are believed to hold some \$100-110bn and are the only countries still adding substantially to that surplus.

Yet even these countries' contribution to the collective surplus appears to be declining. According to the Bank of England excess revenue of OPEC states available for investment abroad was down to

\$5.4bn in the first quarter of this year, compared with \$11.7bn in the same period of last year. While the surplus grew by \$33.5bn in 1977 (marginally less than the previous year) this year it is not expected to increase by more than \$20-25bn.

This is because of both a drop in revenue and a rise in spending. On the revenue side oil output is down—it fell by 9 per cent in the first five months of this year compared with the equivalent period of 1977; price differentials have been cut to stimulate sales; and there has been no oil price increase since January 1977. In addition the drop in the value of the dollar has eroded the oil states' purchasing power by no less than 15 per cent, quite apart from the effect on inflation.

The major Arab oil exporters have cut their spending rates since the heady days of the inflationary boom of two to three years ago, and all have endured recession in varying degrees. But the expenditure and thus the imports of all such states have still risen, partly because of inflation but mainly because only now are larger scale development projects getting underway. This is the other main element eating into the invisible surpluses.

Saudi Arabia, with its very high oil production capacity, and until recently low absorptive capacity, has by far the highest accumulated assets of any oil state—put at between \$70bn and \$80bn. But its total spending has risen fast and in the last financial year probably came close to the budget alloca-

tion—although this was some way below total revenue. For the new financial year a much higher spending allocation has been agreed, so with the expected drop in revenue the Kingdom could spend a higher proportion of its income this year than ever before in this decade.

Kuwait, which had an accumulated surplus of \$18.3bn at the end of 1976, budgeted for a surplus of only \$2.6bn in the financial year which ended last month, compared with double that amount the previous year. Its domestic spending is making increasing demands on revenue, which has anyway been hit by reduced oil sales.

Borrowing

In the UAE Abu Dhabi had a surplus in 1977 of about \$1bn—which should have brought the state's reserves up to between \$5bn and \$6bn—but this looks like being sharply reduced this year and may dwindle to nothing next year because of the growing demands both of the Emirate's own development programme and the rising absorptive capacity of the federation to which it contributes heavily. It plans to peg its development spending over the next three years (but at a level which has yet to be attained).

Even Qatar, the fourth and last so-called "chronic surplus state," could have difficulty balancing its budget this year and is borrowing to finance its bold industrialisation policy rather than dip into its re-

tively modest accumulated investment.

For the other major Arab oil exporters, which never looked likely to have a long term surplus, the same trends can be seen. Last year Libya and Iraq both managed to register significant increases in their foreign exchange reserves, but neither is expected to have a large surplus this year and each could be in deficit. Algeria only had a surplus for a short time in 1974 and is a heavy borrower.

Not surprisingly states like Algeria and Iraq, with their relatively large populations and considerable potential for development away from hydrocarbons, resent most the decline both in their oil revenues and in their value, and have taken the most militant line towards higher oil prices in OPEC, being defeated principally by the swing producer of the cartel, Saudi Arabia.

On the important issue of whether OPEC states can compensate themselves for the decline in the value of the dollar, a recent meeting in London of 30 OPEC experts concluded that the cartel could do so either by a straight price rise or by an index-linked increase, and it came to the conclusion that some increase would be possible despite market conditions. However, no decision was taken on calling an extraordinary ministerial conference of OPEC to act on the findings of the committee, and much depends on the attitude of Saudi Arabia and Iran, the two largest producers.

The surplus of the Arab oil states has proved easier for the world financial system to

absorb than was initially thought, and an impressive proportion of it has been directed by the surplus states to international organisations such as the World Bank and IMF facilities. The Arab states have been highly generous with their aid disbursements, giving away about \$15bn over the 1974-76 period and maintaining a similar level of munificence to this day. The bulk of this aid has gone to other Arab states, notably those confronting Israel, but other substantial sums have flowed to non-Arab African and Asian countries both through national and multilateral aid funds. Within the Arab world aid has gone some way to evening out the great disparity in wealth between the very thinly populated chronic surplus states and more heavily populated but relatively poor states such as Egypt and Sudan.

Yet from the Arab point of view the significant fact is that the bulk of the surplus remains invested outside the Arab world and the first choice of both State and private investors is the Western and not the Arab world. Compared with the other regions of the world the degree of inter-Arab investment is highly impressive, but it makes up only a small proportion of the total surplus for reasons which include lack of management talent, the problems of identifying and getting projects going in the deficit countries and political risks. Nevertheless, there have recently been moves towards remedying two of the more obvious deficiencies of the Arab financial world: the lack of any

institution for providing balance of payments support to deficit countries in an orderly way, and the fact that even where Arab banks contribute to Eurocredits for other Arab institutions, Western financial concerns actually manage them. Naturally, the fact that Arab States rarely manage the credits for other parts of the world tends to rankle, too.

Over the past two years the Arab Monetary Fund has been established, based in Abu Dhabi, and is expected to provide its first balance of payments support facility to a deficit state in the next six months. The AMF has been compared with the IMF, but although its basic function is the same, the Arab institution offers a somewhat wider range of facilities to its members.

Watershed

However, the capital at its disposal is relatively small at this stage and it intends at some point to borrow commercially to obtain more funds; this fact is likely to restrict its generosity in lending and lead to its insisting that member states take tough economic measures in exchange for financial help. Nevertheless the AMF, through its ability to check that member states are pursuing sensible policies when in receipt of balance of payments support, should encourage states such as Saudi Arabia to disburse more of their surplus; the Kingdom has so far been constrained by the problem of monitoring how its subventions are spent and by the lack of any

mechanism for regular disbursement.

In commercial financing a bond market has grown quickly in the region since the 1973-74 watershed, with Kuwait and Bahrain in the lead and local currencies being increasingly used. In the past few months a number of Gulf-based institutions have begun managing Eurocredits both for Arab and non-Arab borrowers, and, as western bankers have pointed out, the borrowers have in several cases obtained very good terms. The leaders of the new trend are the Gulf International Bank, in Bahrain, owned by eight regional states, the National Bank of Abu Dhabi, the Abu Dhabi Investment Company, and the Kuwait International Investment Company. These banks have been eating into territory partly occupied by the two Paris-based consortia, Union des Banques Arabes et Francaises and Banque Arabe et Internationale d'Investment. So far the loans arranged outside the Arab world have been for three East European states.

This new aggressive stance is a move in the direction indicated by Dr. Said Nabulsi, the Jordanian central bank governor, when he addressed his opposite numbers from Arab states a few weeks ago in Amman. He said that Arab countries should become the intermediaries in the international capital market instead of only the suppliers of capital. The central bankers were considering the establishment of a "permanent or standing syndicate" of Arab bank branches abroad and the ultimate aims of the Arab policy have come to look far less utopian.

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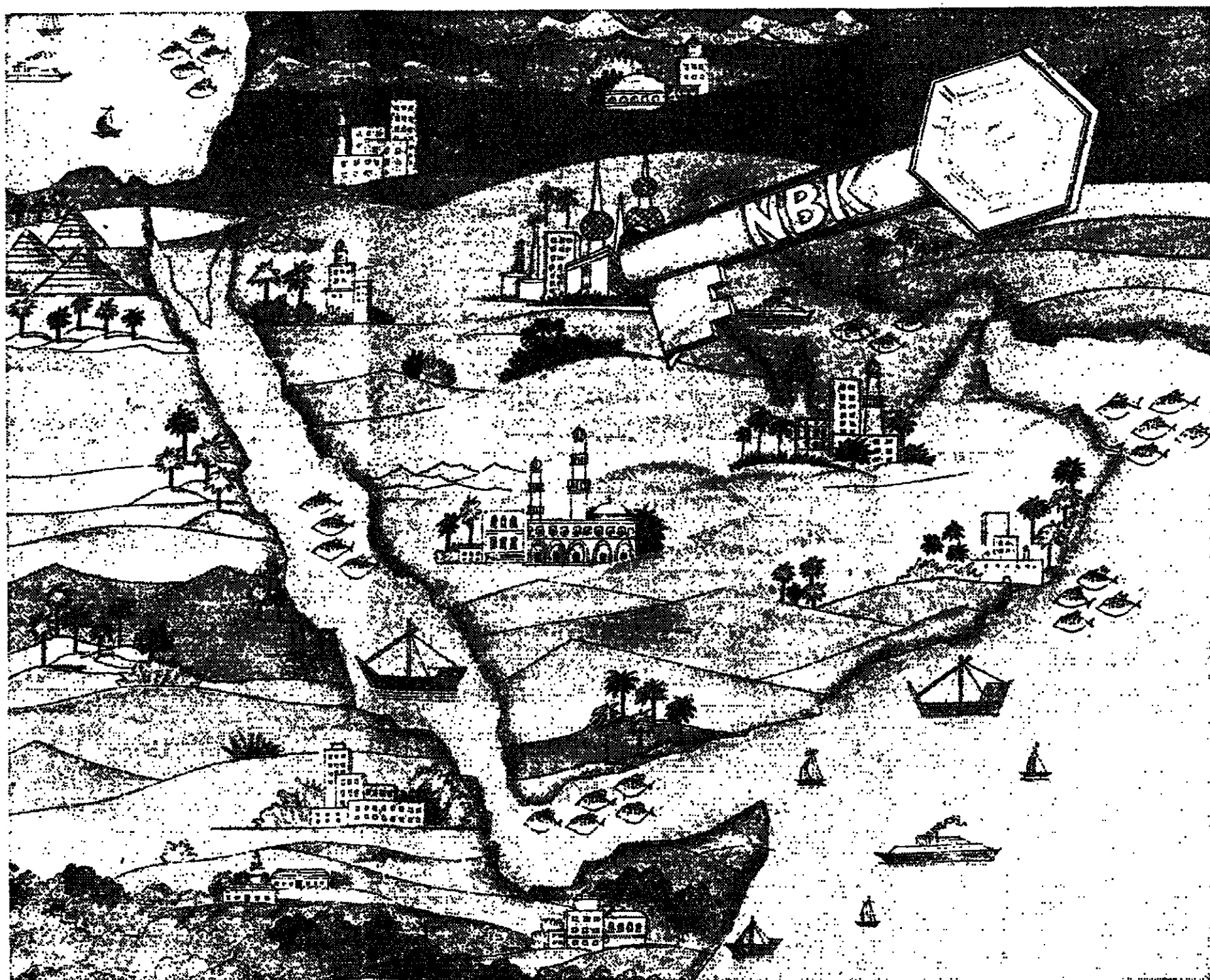
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ARAB BANKING AND FINANCE II

THE OIL SURPLUS

No alternative to the dollar

FOR THE Organisation of Petroleum Exporting Countries (OPEC), not the least its eight Arab members, the past year has been disconcerting. For the majority there has been no across-the-board price increase since the beginning of 1977, while many have had to scale down differentials in the face of slack market conditions. Having been almost stagnant last year, production during the first five months of 1978 was about 9 per cent down on the same period of the previous year.

On a trade-weighted basis the depreciation of the dollar would have meant a loss of purchasing power of no less than 15 per cent, quite apart from the erosion in the value of revenue per barrel from inflation. Steadily forecasts of the collective surplus have been scaled down. It is unlikely to be more than \$25bn in 1978 and may be as little as \$20bn, even if producers do raise prices before the end of the year to compensate for the depreciation of the dollar.

The downward trend can be seen from the latest estimates made by the Bank of England. They show the investible surplus of OPEC falling marginally from \$35.8bn in 1976 to \$33.8bn in 1977. Yet

\$21.2bn or nearly two-thirds of last year's surplus was generated in the first half of the year when the majority of the producers were enjoying the benefits of the 10 per cent increase in oil prices imposed at the beginning of 1977. For the first quarter of 1978 the Bank of England calculates that excess revenue available for investment abroad was down to \$5.4bn compared with \$11.7bn for the same period of the previous year.

Margin

Moreover, 80-90 per cent of that would be accounted for by Saudi Arabia and Kuwait. They alone this year can envisage a substantial excess margin of revenue for investment, although on a reduced scale compared with previous years. More than ever the OPEC surplus is an Arab one concentrated in the hands of Saudi Arabia and Kuwait, which will in the future be the only members generating a significant, endemic surplus. Currently, they are reckoned to account for \$100-110bn of net external assets held by OPEC, which in total amount to an estimated \$140-150bn in mid-1978. Within the disjointed UAE

federation Abu Dhabi seems unlikely to be able to add much, if anything, to its investment portfolio, while Dubai, saddled with a heavy debt-servicing burden, will have its petroleum revenues fully committed.

One of the minor producers within OPEC, Qatar nevertheless has also generally been regarded in the past as one of the constant surplus exporters in the long term. However, rather than dip into its modest accumulated investment the state has been borrowing from the international market to finance its big industrial projects and may have difficulty balancing its books during the current year.

Despite the squeeze of static output and declining purchasing power, Libya and Iraq both managed to register significant increases in their foreign exchange reserves as recorded by the International Monetary Fund in the course of 1977, but this year Iraq may have difficulty reaching equilibrium, while Libya's surplus may be drastically cut.

Only in 1974 in the wake of the threefold escalation of oil prices in the last quarter of the previous year was Algeria in the happy position of being a

surplus producing state. Restricted in its oil production potential by declining reserves and still awaiting a return from the exploitation of its more abundant gas resources with the heavy investment required for their development, Algeria is moving more deeply into debt. Finding itself in the least comfortable position of any member of OPEC, it has been the most vociferous member in demanding compensation for its loss of purchasing power. In the first half of this year it borrowed \$1.34bn out of the \$6.62bn raised by OPEC members in the international market.

Rapid

No country has ever experienced such rapid enrichment as Saudi Arabia. By the middle of this year its accumulated assets would have exceeded \$70bn and were perhaps as much as \$80bn. These figures compare with combined gold and foreign exchange reserves of West Germany, Japan and the U.S. recorded by the International Monetary Fund in April, totalling \$72bn. Earlier this summer Morgan Guaranty Trust in its World Financial Markets

estimated that Saudi Arabia's cumulative unspent surplus on current account had reached \$69bn by the end of 1977 and projected a total of \$76.5bn for the end of 1978. Just a few weeks previously the Saudi Arabian Monetary Agency published what amounted to the first exact account of its foreign assets, giving in the process the first official explicit acknowledgment of what had been becoming increasingly apparent—the fact that since 1975 the kingdom's international liquidity as reported by the IMF bore less and less relation to its actual surplus wealth.

SAMA's report for 1977 (in effect covering the Hijri fiscal year 1398-7 ending on June 16 of Gregorian 1977) put gross foreign assets at its disposal as at December 21 1976 at \$82.71bn in Saudi riyals, the equivalent of \$51.76bn at the then rate of exchange—but \$53.11bn at the rate following the most recent of the periodic adjustments made earlier this month (\$R3.44=\$1). At the old rate of exchange the breakdown was given as \$25.04bn for bonds, \$22.71bn in deposits with banks abroad, \$3.28bn in convertible foreign exchange and \$155m in gold. Included in the total

would have been the Kingdom's substantial purchase of World Bank bonds and its contribution to the IMF's special oil facilities, but not its considerable concessional aid, payments for the disbursements of its own Saudi Development Fund, which have grown rapidly since then. Since 1973 Saudi Arabia disbursed no less than 5.2 per cent of its GDP in aid. The figure would also exclude the growing volume of private investment, which is, however, only a very small proportion of the Kingdom's net external assets as a whole.

Having recorded a 7.3 per cent increase in its oil exports in 1977, so far this year Saudi Arabia has borne the brunt of the overall drop in production. Generally, it has shown a surprising absorptive capacity and in 1977-78 will have spent \$5-90 per cent of its budget appropriations, according to preliminary estimates (though a considerable lower proportion of its revenue). As it is, World Financial Markets foresees its current account surplus falling from around \$17bn in 1977 to something like \$10bn in 1978. In the longer-term Morgan Guaranty Trust expects Saudi Arabia's export revenues to rise to about \$47-48bn in 1980, but on the assumption of an import growth of 12 per cent annually in real terms predicts that the balance of trade on goods and services is likely to fall to around \$1bn in 1980. While investment income, estimated at over \$4bn for this year, will continue to rise, the rate of growth of Saudi Arabia's accumulated surplus undoubtedly will slow down.

Cautious

SAMA has pursued a cautious investment policy deploying its funds for the most part through some 50 approved banks. Some of the confusion about the Kingdom's reserves and allegations of deliberate concealment of their amount arises from the fact that the Agency's definition of liquidity is somewhat different from those normally used. In particular, Treasury bills and other easily discountable securities, which might normally be classed as liquid assets, are regarded by SAMA as investments. It holds such enormous quantities that it would be unable to discount them on a significant scale without seriously disturbing the market.

A great deal of Saudi Arabia's concern for the dollar arises from the fact that, by necessity, the bulk of its funds must be in the dollar. "We are 80 per cent in dollars—where else would we put the money?" the Governor of SAMA has been quoted as saying recently. Beyond that there are other political considerations suggested by the report early this summer, which were not denied, that the Kingdom had committed itself to placing \$5bn in France. Only a small proportion of assets controlled by SAMA are in the form of equities, of which it is believed to have ten portfolios, but recently it has been more active in diversifying its U.S. investments through private placements with U.S. companies.

Foreign assets accumulated by the Kuwait Government from its unspent revenues and invested abroad rose from the equivalent of rather less than \$4bn at the end of 1973 to \$18.3bn at the end of 1976 after aid disbursements. By the middle of this year the total controlled by the Ministry of Finance probably amounted to something approaching \$30bn. Kuwait long predates Saudi Arabia as a surplus oil state and has for over two decades pursued a policy of building up a substantial financial reserve as an alternative source of income. At the end of 1976 it decided to place 50 per cent of the assets of the State General Reserve into a "Reserve Fund for Future Generations," to which 10 per cent of revenues is now allocated each year.

At the same time Kuwait has for much longer than Saudi Arabia pursued a policy of distributing surplus income among its citizens. The Kuwaiti private sector's assets abroad are now reckoned to be in excess of \$5bn. According to preliminary estimates for 1977, investment income for the State as a whole in 1977 amounted to \$48m Kuwaiti dinars (the equivalent of \$1.95bn), of which KD 258m, accrued to the Government, KD 123m to mainly public-owned financial institutions, and KD 163m to the private sector.

Kuwait's public investment policy is a much more sophisticated and complex affair than that of Saudi Arabia, as befits its far longer experience and bigger commitment to maximising the return from its accumulated funds. Its hidden, unspent reserve is treated separately from the Ministry of Finance's cash accounts of \$3-4bn and the money held by the Central Bank as backing for the currency. It includes a very wide variety of financial

instruments and assets, including ordinary deposits, securities, corporate and institutional bonds, convertibles, equities and property—the latter two managed with the assistance of foreign banks in a number of portfolios and currencies. Also embraced within Kuwait's long-term reserve are its loans to the World Bank and the IMF, as well as other commitments which are not necessarily commercial or political such as the capital contributions of the Kuwait Fund for Arab Economic Development and other Arab aid funds, its share in pan-Arab projects and investment companies, and bilateral government-to-government loans, some of them interest free.

As a deliberate act of policy Kuwait has for over five years placed a ceiling on its oil output for reasons of conservation. For other reasons relating to the quality of its crude, its pricing and market factors, production fell last year by 8.3 per cent below the desired level of 2m barrels a day. Not least because of mounting investment income, however, the balance of payments surplus did not fall substantially from the 1976 peak, \$7.3bn to a provisionally estimated \$6.4bn. Expenditure is making mounting demands on revenue and is expected to continue to do so for the indefinite future.

In the budget estimates for fiscal 1977-78 (ending last month) a surplus of KD 714.9m (nearly \$2.6bn) compared with over \$4bn for this year, will continue to rise, the rate of growth of Saudi Arabia's accumulated surplus undoubtedly will slow down. In the budget estimates for fiscal 1977-78 (ending last month) a surplus of KD 714.9m (nearly \$2.6bn) compared with over \$4bn for this year, will continue to rise, the rate of growth of Saudi Arabia's accumulated surplus undoubtedly will slow down.

In the United Arab Emirates Abu Dhabi is seeing its surplus gradually dwindle: it could disappear altogether next year. Last year the Emirate had an income of about \$5.6bn. Of that about \$1.4bn was spent by federal ministries (Abu Dhabi is the major contributor to the federal budget), about \$1.7bn within the Emirate and about \$1bn on aid, leaving a surplus of rather more than \$1bn to be transferred to the Abu Dhabi Investment Authority. This year, however, income is likely to be down by at least 12 per cent, while both the federation (whose absorptive capacity has been steadily rising) and the Emirate itself will take more. Aid may prove difficult to scale down sharply.

The Emirate plans to peg development spending over the next three years and should during that time complete most of the infrastructure it needs, so that early in the next decade its spending could drop, leading, other things being equal, to a resumed surplus. The Abu Dhabi Investment Authority's assets are estimated at between \$5bn and \$6bn, spread among a variety of outlets including equities (mainly on the New York, Tokyo, Zurich and London stock exchanges), fixed interest securities, including bonds, property and some relatively small investments in the Arab world and the UAE itself. The Authority is increasingly under UAE management. It has been estimated that Abu Dhabi should be able to cover its domestic spending out of its investment income in about ten years time.

Domestic

Dubai, the other main oil producer in the UAE, is unlikely to have any surplus for outside investment this year because of its heavy domestic spending and the cost of servicing its substantial debt, which will peak next year and in 1980 assuming no additions are made to it.

With limited oil reserves Qatar has chosen to restrict its output to about half the level of which it is capable. A 10 per cent fall last year cancelled out the effect of the price increase which the state imposed, along with the majority of OPEC at the beginning of 1977. In the event a fiscal surplus of about \$250m was generated in contrast to the budget deficit originally envisaged. At the same time Qatar borrowed on the international market \$300m to help finance its heavy industrial projects. Apart from the reserves held by the Qatar Monetary Agency as currency backing, the accumulated surplus is little more than \$2bn split almost equally between deposits and bonds of varying maturities.

Libya has always protested that it should not be considered a surplus producer, but this assertion is open to question. Even full implementation of its

1976-80 development plan which seems improbable in even nominal money terms, would leave a considerable excess of revenue which is currently running at an annual rate of \$8-10bn annually. There is, too, a limit to the quantity of Soviet and French arms that it can absorb. As it was, with oil production up 10 per cent last year and the price increment of the same order, Libya's international liquidity as recorded by the IMF rose from \$3.2bn to \$4.9bn. However, those published reserves should not be regarded as a cash balance and certainly very much understate Libya's accumulated surplus. In practice what Tripoli would regard as longer-term savings are handled by the Libyan Arab Foreign Bank and the Libyan National Investment Company, which holds the state purchased from Fiat towards the end of 1976. Policy is directed by political and economic development considerations rather than the aim of creating an alternative source of income. Over the past few years LAIB has been very active in the Eurodollar market, either directly or through its participation in consortia banks as well as making direct loans such as the \$250m provided for ENI earlier this year and to guaranteeing as well as contributing to the \$100m recently raised for debt-stricken Turkey.

In a peculiar way Libya's revolutionaries have been "obliged to become rentiers of the capitalist world they detest," in the words of oil consultant Jack Harthorn. Despite its comparable income and radical attitude Iraq is an altogether different proposition. It not only has a much greater long-term potential as a producer—remaining for various reasons underdeveloped in terms of its petroleum resources—but has a much higher absorptive capacity with its 11m population. Inscrutably enigmatic Iraq does not even produce figures for its oil production. It would be a mistake to assume that its officially published gold and foreign exchange reserves present the full amount of its external assets, but in practice the IMF statistics probably cover the bulk of them. Iraq's recorded reserves rose from \$4.6bn to nearly \$7bn in 1977. Certainly its funds which are deployed exclusively by the Central Bank and the Rafidain Bank, are kept highly liquid. Iraq's involvement in the Eurodollar market has been negligible though its External Development Fund has been disbursing an increasing amount.

Limits

Apart from the increasingly large amounts of funds required by the producers for budgetary reasons and currency cover, all the Arab producers would prefer to put their revenues into necessary infrastructure and productive income generating projects. Even Kuwait is not really an exception to that generalisation but has decided that there are desirable limits to domestic growth for social and political reasons. As it is, OPEC countries—like most other investors—have earned a negative compound interest on their surplus revenues placed abroad since 1973, through inflation and decline in currency values. Meanwhile the bulk of their external assets have been placed in dollars either through direct placements in the U.S. or in the Eurocurrency markets.

The World Bank has recently estimated that no less than 75-80 per cent of the accumulated OPEC surplus as a whole are in the form of dollars of one kind or another and no less than 60 per cent in the form of bank deposits. It was the scale and high degree of liquidity of these funds that led Mr. Edward Heath to propose recently that the producers owning them should lend directly to industrialised countries, as well as the developing world, as part of the campaign for global reflation. As pressure on revenue increases no producer apart from Saudi Arabia is likely to want to increase its bilateral commitments.

For over a year now there has been mounting preoccupation with the erosion of the value of the dollar, which has lost something like 17 per cent in purchasing power since the beginning of 1976 and about 30 per cent since the great price explosion two years earlier. Yet this year the shift out of the dollar has been minimal, according to the World Bank. The fact is that there are limited opportunities for diversification. Or as Mr. Abdel-Rahman Attiqi, Kuwait Minister of Finance, put it "there is no alternative to the dollar."

Objectives of the Petroleum Exporting Countries by J. E. Harthorn in co-operation with the Middle East Economic Survey and Energy Economics Research, Price \$300.

Richard Johns

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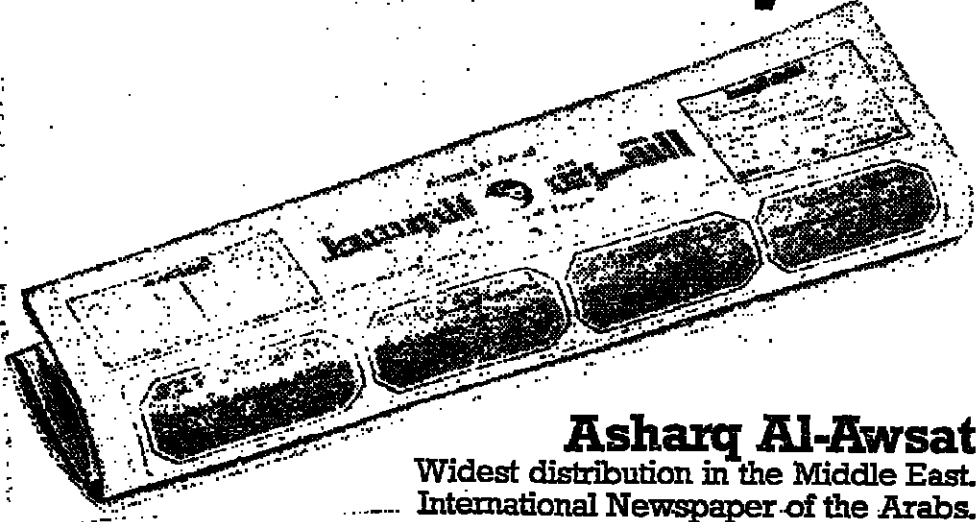
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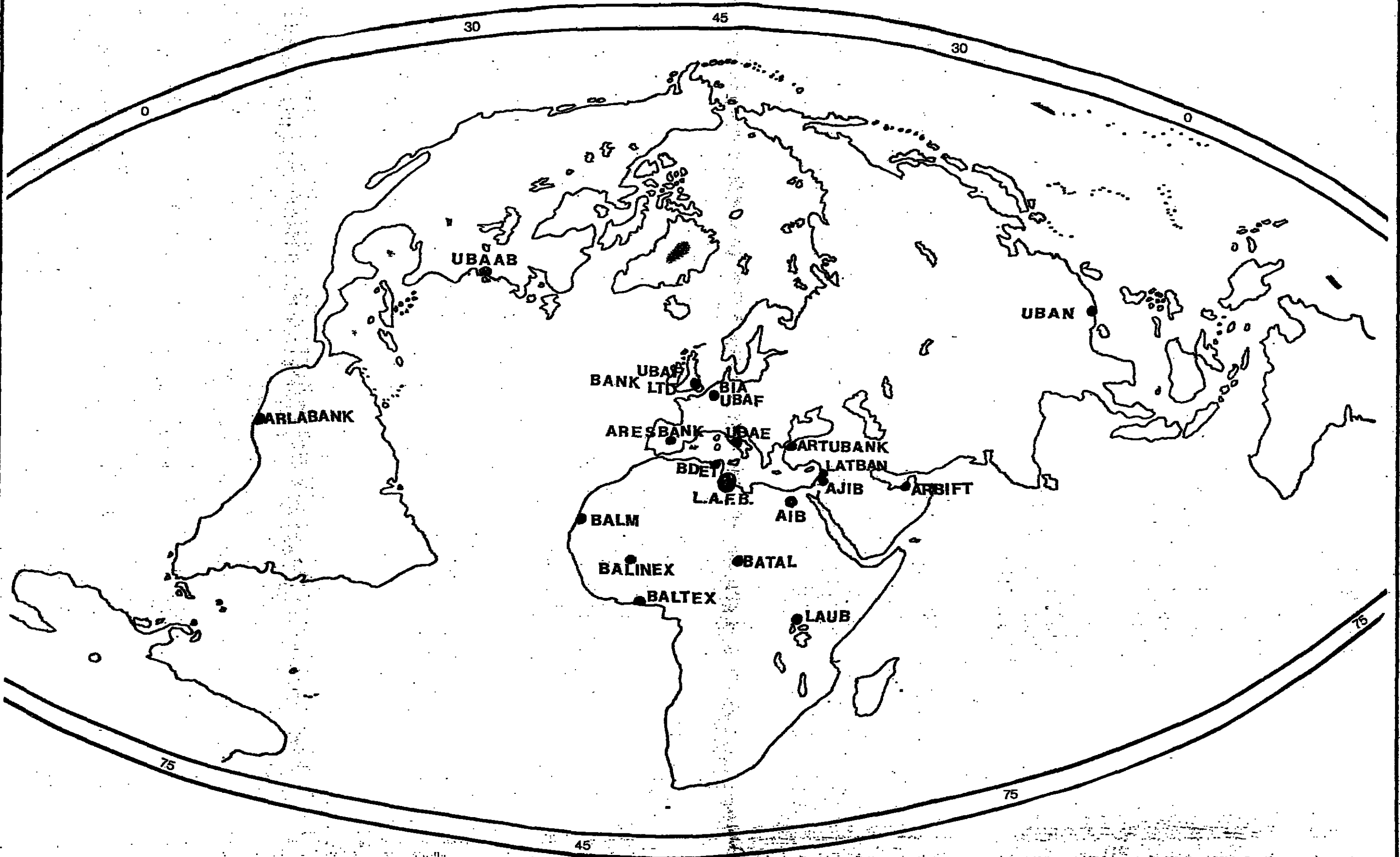
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FINANCIAL STATEMENTS 1977

BANKING DEPARTMENT			
CURRENT LIABILITIES	124,768,274	CURRENT ASSETS	81,872,912
NON-CURRENT LIABILITIES	5,074,182	NON-CURRENT ASSETS	160,456,865
PORTFOLIO VALUATION RESERVE	3,000,000	FIXED ASSETS	195,379
SHAREHOLDERS' SPECIAL ADVANCE	90,595,800		
SHARE CAPITAL & RESERVES	19,086,900		
	<u>242,525,156</u>		<u>242,525,156</u>
DEVELOPMENT DEPARTMENT			
CURRENT LIABILITIES	449,100	CURRENT ASSETS	1,702,598
NON-CURRENT LIABILITIES	96,600	NON-CURRENT ASSETS	15,212,919
PORTFOLIO VAL. RESERVE	3,000,000		
SHARE CAPITAL & RESERVE	13,369,817		
	<u>16,915,517</u>		<u>16,915,517</u>
TOTAL SHARE CAPITAL AND RESERVES AND LIABILITIES OF BANKING & DEVELOPMENT DEPARTMENTS	259,440,673	TOTAL ASSETS OF BANKING & DEVELOPMENT DEPARTMENTS	259,440,673
CONTRA ACCOUNTS	<u>233,076,643</u>	CONTRA ACCOUNTS	<u>233,076,643</u>

HIGHLIGHTS

THE LIBYAN ARAB FOREIGN BANK IS A GOVERNMENT BANK INCORPORATED IN 1972 IN THE FORM OF A JOINT STOCK COMPANY, EXEMPTED FROM ALL LIBYAN EXCHANGE CONTROLS AND BANKING LEGISLATIONS.

THE INSTITUTION HAS STRIVED TO SUCCEED IN PROMOTING ITS TWO BASIC PRINCIPLES:

- (1) TO ENCOURAGE AND SERVE THE DEVELOPMENT OF THE REGION AS A WHOLE; AND OF NEIGHBOURLY AND FRIENDLY COUNTRIES IN PARTICULAR.
- (2) TO ENTER AND BECOME ACTIVE IN THE FINANCIAL MARKETS OF THE WORLD.

THE BANK PERFORMS ALL INTERNATIONAL BANKING, FINANCES ALL TYPES OF INVESTMENTS, RESEARCH AND FEASIBILITY STUDIES, PROMOTION OF NEW PROJECTS AND JOINT VENTURES. IN ITS FIVE YEARS OF ACTIVITY THE LIBYAN ARAB FOREIGN BANK HAS SET UP A WORLD-WIDE CHAIN OF FINANCIAL INSTITUTIONS AND COMPANIES, AND HAS AN INTERNATIONAL NETWORK OF CORRESPONDENTS.

NET PROFITS (BEFORE TAXATION):

AS OF 30/04/1974	LD 2.6	(Approx.) US\$ 8.9
" " 31/12/1974	" 4.3	" 14.8
" " 31/12/1975	" 5.6	" 19.3
" " 31/12/1976	" 4.4	" 15.2
" " 31/12/1977	" 8.1	" 27.9

BANKING SUBSIDIARIES AND AFFILIATES

L.A.F.B. EQUITY %

CAPITAL OF BANK (millions)

TOTAL BALANCE SHEET (millions)

BIA—Banque Intercontinentale Arabe—PARIS	50	FF 100	FF 3,558.0
AIB—Arab International Bank—CAIRO	28.8	US\$ 100	US\$ 963.9
ARBIFT—Arab Bank for Investment & Foreign Trade—A. DHABI	33.3	ED 60	ED 1,018.7
LATBAN—Libyan Arab Tunisian Bank—BEIRUT	60	LL 10	LL 75.3
AJIB—Arab Jordanian Investment Bank—AMMAN	10	JD 5	(Incorp. in 1977)
BDET—Banque de Développement Economique de Tunisie—TUNIS	7	TD 10	TD 83.2
ARLABANK—Arab Latin American Bank—LIMA	13.4	US\$ 100	(Incorp. in 1977)
ARES BANK—Banco Arabe Espanol—MADRID	30	PTAS 1,500	PTAS 51,962.5
ARTUBANK—Arab Turkish Bank—ISTANBUL	40	TL 240	(Incorp. in 1977)
BALM—Banque Arabe Libyenne Mauritanienne—NOUAKCHOTT	51	OM 200	OM 2,354.6
BATAL—Banque Tchado-Arabe Libyenne—N'DJAMENA	51	CFA 250	CFA 2,761.7
BALTEX—Banque Arabe Libyenne Togolaise—LOME	50	CFA 1,000	(Incorp. in 1977)
UBAF BANK LTD—LONDON	25	STG £ 10	STG £ 431.4
UBAF—Union des Banques Arabes et Francaises—PARIS	7	FF 150	FF 14,782.3
UBAE—Unione di Banche Arabe ed Europee—ROMA	8	LIT 10,000	LIT 513,621.3
UBAAB—Uba Arab American Bank—NEW YORK	7	US\$ 25	US\$ 323.8
UBAN—Arab Japanese Finance Limited—HONG KONG	7	HK\$ 25	HK\$ 1,569.7
LAUBANK—Libyan Arab Ugandan Bank—KAMPALA	51	U SH 60	USH 1,177.6

INTRA-REGIONAL INVESTMENT

The poor relation

IN SPITE of eloquent pleas by had to compete for the even pan-Arab idealists, intra-regional investment remains the poor relation when it comes to allocating the financial surpluses of the oil-producing countries of the Arabian peninsula. For governments, development and defence expenditure, foreign investments and development aid—quite apart from the increasing demands of annual recurrent budgets—all receive priority over the allocation of funds to intra-regional investment organisations. For the private sector, domestic investment followed by investment in the industrialised west is more attractive than investment in other Arab countries, especially the poorer brethren.

As with money, so with people. The Arab world is woefully short of trained, experienced and capable financial and investment managers. Inevitably the best, who are very good indeed, are deployed in the high return investment areas. There tends to be a big gap between the abilities of the best people and the abilities of the average. It follows that investment projects in the financially poorer countries, which are likely to demand well above average financial entrepreneurship if they are to be launched and become viable, are often the responsibility of managers for whom extreme caution is the watchword.

Some Arab ministers and financial experts would argue that the substantial sums disbursed by the oil surplus Arab states in aid to the less well endowed members of the Arab League constitutes investment. In the sense that this aid is developing an economic, industrial and social infrastructure, and hence is improving the climate for more conventional investment, this argument is reasonable. But aid is generally on a government-to-government basis. Loans are fixed term, structured and guaranteed. An assessment of risk, the hallmark of entrepreneurial investment, is almost completely absent from development loans.

It was argued that the bank attracted deposits totalling \$450m, and made a \$2.6m profit. The thinking behind the creation of a new generation of Arab businessmen, found especially in Bahrain and Kuwait, with attitudes in marked contrast to the earlier, often Egyptian-inspired philosophies which led to a proliferation of bureaucratic supra-national agencies whose effectiveness tended to be in inverse proportion to the impressive sound of their titles.

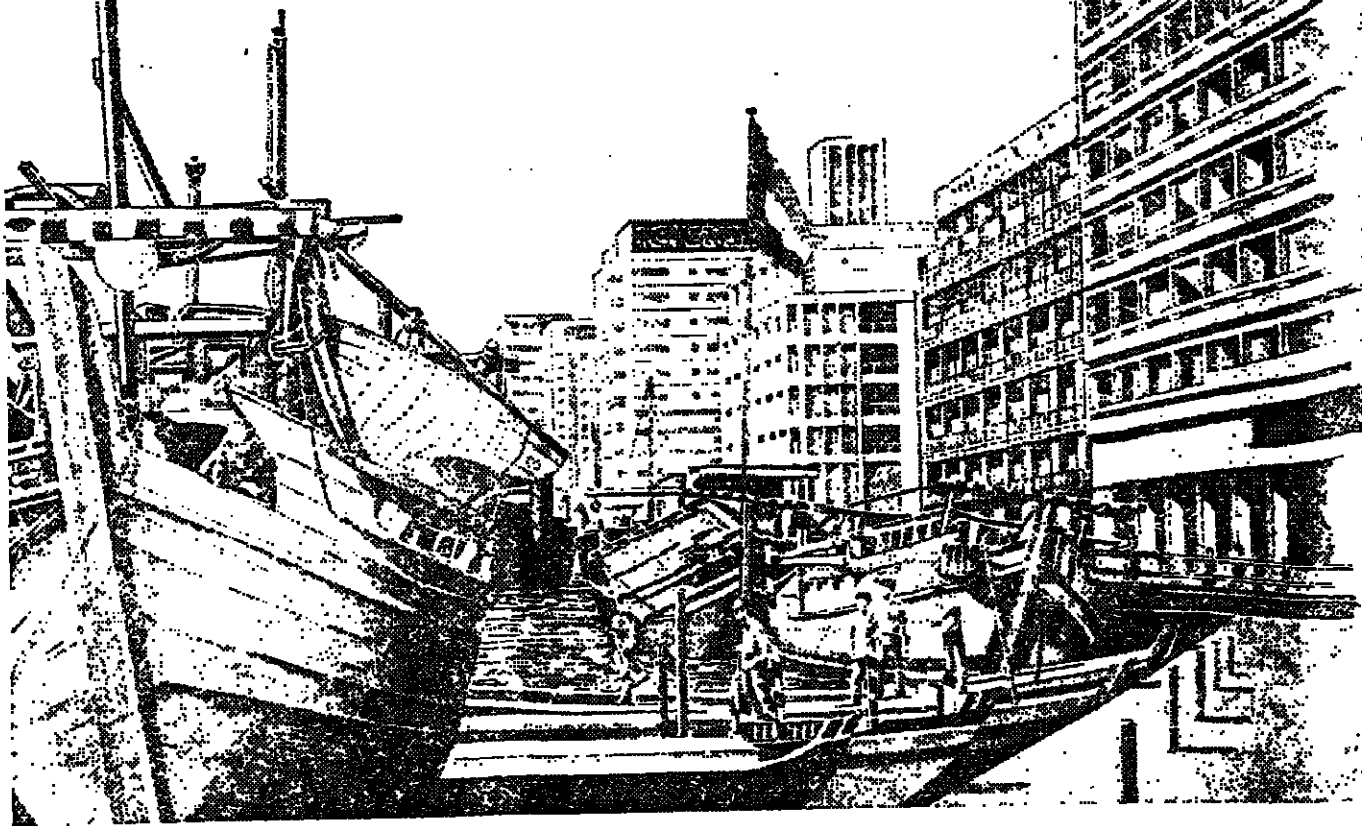
In essence, investment requires businessmen with money to lend being put into contact with businessmen with potentially profitable projects, the whole being in an environment in which contracts can be concluded with confidence, knowing that they will be upheld by law.

The Arabian Peninsula is certainly not short of businessmen with money to lend. And that there are businessmen with projects which are decidedly bankable is shown by the rising number of private sector loans granted in peninsular-based organisations. The interesting fact, however, which strikes at the pure concept of Arab investment in the Arab world, is that by far the greatest proportion of these private sector loans are arranged by international banks even though these banks are under Arab management. The under Arab management, or Arab money, but through the international banking system, rather than on a direct Arab to Arab basis. Indeed, the Gulf International Bank stresses its international character before it stresses its Arab character.

The trend is clear. Intra-regional investment, especially in the Peninsula, although small compared to other Arab investment is growing and thriving, through the medium of the international banking system, which Arab and consortium banks with Arab capital form an important part.

A very different institution fostering intra-regional investment is the Bahrain-based Gulf International Bank (GIB), which Arab and consortium banks with Arab capital form an important part.

John Townsend
Editor, Near East Business

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Arab African International Bank's shareholders as at 31st December 1977 were the Governments of Kuwait, Egypt, Iraq, Algeria, Jordan and Qatar. Affiliates and Associates include: Banque Arabe Africaine en Mauritanie; Union de Banques Arabes et Françaises—U.B.A.F. France; UBAF Arab Japanese Finance Limited, Hong Kong; UBAF Arab American Bank, New York.

Dedicated

AIC's first investment venture is an excellent illustration of the problems of intra-regional investment in the Arab world. Stirred by the concept of "the granary of the Arab world," and drawn by what then appeared to be an extremely viable project, AIC acquired 17 per cent of the equity in Sudan's Kenana sugar company. In taking this share, AIC was the first Arab financial institution to invest in Kenana.

As the overall cost of Kenana increased by leaps and bounds, so did AIC's financial exposure. At the present time, the company has \$54m, or 31 per cent of its total paid up capital so far of \$180m in Kenana either as equity or local capital. In addition to this direct investment, AIC has guaranteed \$30m of supplier credits for the purchase of equipment for the project. Naturally, if the revenue generated by the project is insufficient to service the loans concerned, these guarantees could be called.

So serious had the drains of Kenana become on AIC's resources that the shareholders deemed a change of management desirable. A new director general of the company was appointed last October. It is likely that AIC will concentrate in the future on smaller projects, and thus limits its exposure, and the involvement of its hard pressed management team. Apart from Kenana, the company has invested a total of \$86m in equity and loans in 16 intra-regional projects, which include an asbestos pipe factory in Tunisia, a prefabricated housing plant in Morocco, a brick and cement plant in North Yemen, and a reinforced steel plant in Oman.

The company's new management regards its function as being as much that of a catalyst as a provider of finance. In no sense does the management want AIC to be regarded as a soft loan agency.

Another Arab institution created to facilitate intra-regional investment is the Inter-Arab Investment Guarantee Corporation. Set up in 1974 and based in Kuwait, the objective of the corporation is to provide insurance for Arab investors in the Arab world against risks of a non-commercial nature. The Corporation will insure against compulsory takeover and nationalisation, unilateral cancellation of debts, damage resulting from war and civil disturbances, and a range of risks which are classified as political rather than those associated with normal business dealings.

The Corporation ran into some difficulties in its early days on philosophical grounds, funds, these intra-regional investment organisations also Arab states such as Saudi

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ARAB BANKING AND FINANCE V

THE EUROMARKETS

A new flexibility

ARAB BANKING, with roots up their medium-term Euro-deep in Islamic conservatism, market debt. The Bank for International Settlements in Basel has frequently been accused of being slow to respond to the changing economic and monetary needs of the Arab world in the last few years. Indeed, the domestic banking systems of certain oil-producing countries, such as Saudi Arabia, are often considered inadequate in Western terms of meeting some of the minimum demands on them, given the pace of regional economic development.

However, new initiatives by a number of Arab banks in the past 12 months has caught the attention of the world financial community, and brought to the fore new names in international banking. Emerging from the role of passive depositors of oil funds on behalf of their parent states, several Gulf Arab banking groups in particular are noted for their aggressiveness in international banking.

Arab banks are also becoming known for their willingness to join in experimentation in the international capital markets, particularly when relevant to their own regional interest. This is a development which few would have predicted only a couple of years ago.

The question of the degree of this new-found flexibility is being sought by the central banks of the Arab world.

The first-ever conference of central bank governors of the Arab states, which has just met in Amman, has started a process which could transform the Arabs from being mere suppliers of capital to full-scale intermediaries in the world capital markets.

According to the governor of the Central Bank of Jordan, Dr. Said Nabulsi, who chaired the meeting, the aim is a unified capital market for the Arab world of roughly \$10bn in the near future, with emphasis on medium- and long-term capital for projects in the Arab world.

Later, however, the increasing sophistication of Arab financial markets could allow it to play a role as intermediary between Arab providers of capital and international borrowers. At that stage, the worth of this Arab capital market would probably rise to \$60bn and above, according to Dr. Nabulsi.

These are long-term plans, however. The activity of Arab banks is a reflection of the variety of different economic and monetary pressures being exerted on the bulk of the oil-exporting states. A number of Arab states have found their oil surpluses have dwindled, underlying the need for external finance to supplement development and budgetary expenditures. In many cases, this has meant medium-term borrowing on the Euromarkets, a field in which Arab banks are entering with increasing impact.

While non-Arab members of OPEC have launched some of the most dramatic financings in the Euromarkets—such as the \$1bn "jumbo" loans for Nigeria and Venezuela—a number of Gulf states are rapidly building

consortia banks, Union des Banques Arabes et Françaises and Banque Arabe et Internationale d'Investissement had been dominant for many years.

The emergence of these Arab banking institutions, competing in a market which has traditionally been the preserve of the big Western banks, has been greeted with mixed feelings by bankers in London, New York and elsewhere.

On the positive side, many consider that the fact that Arab banks are prepared to lend and commit long-term funds in sizeable volume in the international markets is a healthy sign — and a development long urged on Arab governments since their oil surpluses began to pile up in short-term bank deposits.

It is clear the Arab Government's backing, for instance, the Abu Dhabi Investment and Gulf International Bank have agreed that they should become an important channel for recycling surpluses into the Euromarkets.

Nevertheless, some warning comments are being heard. Undoubtedly, their presence has allowed some Middle East borrowers to obtain a perceptible improvement in the terms they can obtain in the medium-term market. This claim came to a head with a recent \$100m credit for Morocco's State phosphate concern, OCP, managed by Abu Dhabi Investment. The transaction was based on a margin to the lending banks of 1 percent, over London Euro-dollar interbank rates, attracting the charge that it was far too "finely priced" considering the shaky state of the Moroccan economy and previous Moroccan lending margins.

The argument about this credit still continues. But it is interesting to note that the Kingdom of Morocco is now returning to international markets shortly for a loan of \$300m. Many Western banks professed themselves reluctant to participate at a 1 per cent spread, and wanted a higher margin. It is thus no surprise that the new loan commands a 1 per cent margin.

Apart from these criticisms, Western bankers also claim that if it came to the large high-risk balance of payments loan for a poorer member of the Arab world, such as Egypt and Sudan, U.S., European and Japanese banks will still have to absorb this unattractive loan business.

However, the latest operation of the Arab Monetary Fund, the Arab world's Abu Dhabi-based equivalent of the IMF, may prove to have great significance for commercial banks. The AMF has agreed to co-manage a loan of \$120m for Algeria on the medium-term market. This credit, destined for the state Banque Nationale d'Algerie, is being lead-managed by Gulf International Bank.

The Fund, whose primary objective is to aid member states with balance of payments problems, was thought more likely to start its programmes

with aid injections for Egypt or Sudan. Nevertheless, its presence in the medium-term market can only help to reinforce the activities in this area of the Arab banks, and perhaps reduce the charge that these banks will avoid very high-risk payments loan.

Medium-term credits apart, the trend towards experimentation in Arab banking, particularly in international business has gathered pace in other spheres. Undoubtedly, the gravitation of Western banks to Bahrain, where the offshore market has evolved into the Gulf region's own Euromarket centre, has helped inject expertise and sophistication into the area in general.

At the same time, the many indigenous and foreign institutions in the United Arab Emirates, which has long been accused of being "over-banked," have started to look for offshore business as the local economy has slowed down.

In Bahrain, the two-year-old market, now numbering 36 operating Offshore Banking Units (OBUs), is generally agreed to be generating genuine regional banking business, rather than being a poor relation picking up marginal business from the big Euromarket centres in Europe and South-East Asia.

Liabilities

Regional activity now accounts for over half the market. Liabilities in Gulf currencies, particularly in Saudi riyals and Kuwait dinars, reached the equivalent of \$3.6bn at end-1977 compared with just over \$1.2bn in 1976.

The growth in Saudi-related business has been impressive. One reason is the Kingdom's decision to denominate its big construction contracts in riyals, thus drawing foreign contractors into foreign exchange exposure in the currency. Most contractors have now learnt to deal in Bahrain to hedge themselves, as well as earn tax-free deposit interest on their free riyal balances.

Such is the scale of business that the Bahrain OBU market is due to introduce a clearing and interbank settlement system for riyals, apparently with the tacit approval of the Saudi Monetary Authorities.

Some of the uses to which Saudi riyals are now being put, helped by a growing and significant pool of Saudi currency in circulation outside the Kingdom, includes syndicated borrowing. Bahrain-based banks have organised several such facilities, including a \$850m financing for the Saudi industrial company, Saudi Arabian Amlantit Company. The rate was linked to the six-month rate for Saudi riyal deposits in Bahrain, which now stands at around 5 per cent.

This was followed by one of the largest transactions so far, a \$350m loan for Saudi Research and Development Company, a holding company of Saudi businessman Mr. Ghazi Pharaon.

However, the international expansion in loan business is believed to be moving at too rapid a pace for the Saudi Arabian Monetary Agency. SAMA is widely reported in markets to have written to some banks to urge caution in the use of the riyal in international transactions. While there has been no official confirmation of this step, it is believed that SAMA is anxious not to see a large, uncontrolled "offshore" pool of riyals develop which could eventually endanger its domestic monetary policies.

It is understood that a proposed issue in riyals by the Moroccan development bank BNDE is now being rethought in the light of the Saudi desire to restrict the international use of its currency.

Nevertheless, the pressures to orchestrate a wider role for Arab currencies remain. One of the biggest internationally-syndicated loans in Kuwait dinars so far is now being managed by the National Bank of Kuwait and Chase Manhattan. Totalling KD 14m (approximately \$50m), it is being arranged for a Kuwaiti private sector company, A. al-Babtain, sole agent in Kuwait for imports of Datsun vehicles. The spread is 11 per cent over Kibor (Kuwaiti dinar interbank offered rates).

With the warning shot from SAMA on the rival, many bankers believe that Kuwait will take on growing importance for the international markets. The past 12 months have seen the first Kuwaiti dinar certificates of deposit, fixed as well as floating rate.

The first major promissory note issues have also been introduced in dinars. Other area innovations include local currency bond issues in Bahrain, the most significant of which was the BD 15m 10-year bond for Petroleos Mexicanos.

John Evans

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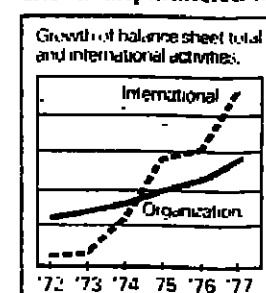
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FINANCIAL CENTRES

Gulf takes over

THE DEVELOPMENT of financial institutions and services has proceeded so fast in the Gulf that people long ago stopped talking about the chances of Beirut recovering its premier position in Arab finance (and the recent new flare-up of fighting there has re-emphasised the improbability of this happening for many years to come).

It is in the Gulf that, out of nothing, has been created a major offshore banking centre—Bahrain—which by the end of June had assets totalling \$19.5bn. This total was within striking distance of the assets of Bahrain's closest offshore rival—Singapore—which has about \$22.23bn. It is in the Gulf that Kuwait has for long provided a stock of native financial expertise and acumen and has developed a wide range of capital market services not just for the local market but for the Gulf and Arab world as a whole.

It is also in the Gulf that major new local banking institutions have emerged in the last 18 months or so to challenge the powerful U.S., European and Japanese banks in syndicating Eurocredits and take their place alongside the more established Arab investment houses—mainly Kuwaiti—which had earlier made their mark in Eurobonds.

Outside the Gulf, there are no really serious contenders as financial centres. Amman has built up a range of local, foreign Arab and Western banking institutions but basically remains a backwater. Cairo has been even more successful in pulling in foreign institutions. Around 70 have opened offices there. But the parlous state of the economy, almost non-existent telecommunications and other basic problems have deterred any real financial development. Tunisia has set out to attract banks operating offshore, but only Citibank has so far opened, and the advantages of Tunis over other Arab cities are not clear.

Rapid

Bahrain's growth has been extremely rapid, and the momentum appears to be keeping up. Offshore banking assets totalled \$18.3bn at the end of April this year, \$19.2bn at the end of May and \$19.5bn at the end of June. April's figure compared with only \$8.9bn a year earlier. By June, 40 offshore banking units (OBUs) were operating, with another four still to activate their licences, including Barclays Bank International.

The Bahrain Monetary Agency (BMA) statistics show strong growth in deposits from the Arab region. Liabilities there stood at \$10.6bn in April, 1978, against \$3.7bn a year earlier, while liabilities from Western Europe grew from \$3.6bn to only \$5bn in the same period. This reflects the increasing deposits coming from banks in the oil-rich countries surrounding Bahrain and, to a much lesser extent, from official and semi-official institutions.

It is generally reckoned in the banking community in Bahrain, that most official surplus funds still follow traditional channels direct to the big international banks in London, New York and other Western centres.

Growth in OBU assets in Arab countries has also been healthy. Between April 1977 and 1978 they rose from \$3.6bn to \$9.3bn, while assets in Western Europe went up from \$2.2bn to \$4.2bn during the same period. The asset growth is a direct result of the strenuous efforts OBUs have made in the past year or so to develop the corporate lending side of their business. Except for the really big banks with OBUs—such as Citibank, Bank of America, Chase and Swiss Bank Corporation—which have worldwide dealing operations, there is not much money to be made out of foreign exchange dealing or money market operations. Only the big banks can deal in the large amounts on which reasonable profits can be made.

In order to cover high operating costs in Bahrain—\$25,000 a year for an annual OBU licence plus other expenses which can take the bill up to a \$1m for a large bank—the onus has been on OBUs to search out lending opportunities in neighbouring states. This has not always made them popular with the commercial banks in Saudi Arabia. Kuwait or the United Arab Emirates, which have accused them of stealing their customers. The OBUs have been able to offer customers for local currency loans rates which are slightly below what the local banks can offer, because their cost of funding is often cheaper. The local banks place their excess funds in dollars or dirhams with the OBUs because they can produce a return overnight or for longer periods on money which would otherwise have to remain interest-free with their central banks.

The counterpart of this placing is the lending out by the OBUs. Because they have no liquidity requirements to

meet, they can charge less when they lend back to Saudi Arabia, Kuwait, etc., than can the local banks, which do have to satisfy liquidity regulations. Some OBUs are known to use overnight money to lend out for periods of up to a year. Periodically, the local banks or monetary authorities have retaliated, forcing up rates quickly in what are still very volatile local currency markets to catch OBUs out. Already this year, the Saudi riyal and UAE dirham have been squeezed in this way and several OBUs were caught in it.

Exaggerated

But the amount of unfair competition from Bahrain in the surrounding countries is probably exaggerated. OBUs have been providing many of the services that the Saudi banks, hidebound by regulations, or the Kuwaiti banks, fairly complacent because of their high profits, have been unable to provide.

Whatever the OBUs can offer in the way of lower costs to a local borrower should not, however, jeopardise his long-term relationship with his local bank, since there is no substitute for a banker being on the spot in the market where he is operating. The only area where the BMA has felt it necessary to ask OBUs for restraint has been on letters of credit, where certain institutions were selling on cheap commission rates. The BMA did not tell OBUs to stop letter-of-credit business in neighbouring states, it merely advised that the business be part of a broader relationship with the client.

Bahrain has recently started issuing investment banking licences to broaden the range of institutions there and develop more longer-term business. Kuwait is still the leader in this sector. It has long had powerful investment companies, which have been active in direct local and regional investment as well as local currency bonds and international bonds. Its commercial banks have huge assets, and have recently started to show more interest in managing and syndicating credits for Arab borrowers. Partly in response to Bahrain's emergence but mainly as a logical growth in the market, Kuwait has developed a wider range of financial instruments and services over the past 18-24 months. The banks have begun issuing certificates of deposit to lengthen the maturity profile of their liabilities, which have been traditionally concentrated on the short periods. As a result, syndicated credits

in Kuwaiti dinars have started, and recently KD 14m was raised in this way for a local borrower. Al-Babtain, with National Bank of Kuwait lead managing alongside Chase Manhattan.

A secondary market-maker—the Arab Company for Trading Securities (ACTS)—began operating last year, bringing depth to the market and improving conditions for new issues: coupons have come down, maturities lengthened and the amounts available for each issue increased. At the same time, prices in the secondary market have held up, and most issues trade over par. It is reckoned to be only a matter of time before triple-A borrowers are attracted to the KD bond market—perhaps a major western company with big contracts in the region and receivables in KD or another local currency.

More and more private sector borrowers are emerging in the Gulf, and local banks are coming forward to raise money for them on the international markets. A lot of the smaller projects tend to be in the real estate field, and some are not always very well conceived or adequately documented.

A recent spate of borrowings by government entities in the Gulf has given institutions like Gulf International Bank in Bahrain, National Bank of Abu Dhabi, Abu Dhabi Investment Company and, to a lesser extent, the Kuwait International Investment Company a chance to play a major role in managing Eurocredits. The deals for Qatar Steel, United Arab Shipping, Bahrain National Oil Company, and others have all been done at the finest spreads, starting at 1 per cent above Libor, a level which has so far been bettered only by France of the sovereign western credits.

The established international banks have complained of the aggression in pricing shown by GIB—owned equally by the seven Gulf states—NBAD and ADIC—both majority owned by the Abu Dhabi Investment Authority. But it is a natural desire for the oil-rich governments to want their state or semi-state entities tied into the markets by their own banks. These banks have the muscle to do this at a time of very low spreads and very stiff competition for good borrowers. They will be even more powerful when market liquidity tightens, for non-Arab banks' funds are likely to be affected before their own funds from the oil states.

Brian Thompson

AID

An economic force

ARAB AID has acquired tremendous financial and economic importance in the world. With disbursements by Arab States and aid institutions running at well over \$5bn a year it accounts for a significant part of the oil States' surplus. Arab aid has become a major economic force both inside and outside the Arab world, and the economies of a few countries are highly dependent on it. Other financial transactions such as inter-Arab investment are in many cases underpinned by aid operations.

The Arab aid funds make up only a small part of the total Arab aid disbursements, but their activities have grown enormously. Several new funds have come into existence since the 1973-74 oil price explosion and by January, 1978, some \$6bn had been committed by them—17 times more than had been approved by the beginning of the decade. The total of authorised capital and authorised borrowing of the Fund and OAPEC aid and major funds comes to around \$23bn.

Total disbursements by the oil revenue surplus States appear to have amounted to about \$15bn between 1974 and 1976, although accurate figures are not easy to obtain. Saudi Arabia's disbursements during that period averaged \$3.3bn, while Abu Dhabi's were just over \$1bn, with Kuwait's rather less than \$1bn. The same pattern can be expected to continue now. These figures, compiled in part from OECD estimates and in part from Governments, include aid disbursed through funds, capital contributions to inter-Arab funds, project aid disbursed through the Government rather than through aid funds, balance of payments support and other subventions.

In all the Arab aid-giving countries it is possible to detect a strong humanitarian desire to receive Saudi assistance, and to benefit other countries, to spread more widely the results of their own good fortune, to strengthen the developing world and to contribute to a general Arab (and, especially for Saudi Arabia, an Islamic) revival. But there is also a strong political element, for the oil States are fundamentally fragile political institutions, weak in human resources and conscious that money in the bank is no substitute for the educational depth and sophistication of Egypt or Syria. The themes of generosity and good political sense are closely interwoven in the operations of all the aid-giving States.

Generous

Saudi Arabia has, for example, made generous contributions to inter-Arab and multinational aid-giving institutions, such as the OPEC Special Fund and OAPEC aid and financial institutions, including the General Organisation for Developing Egypt, the Arab Investment Company and the Arab Bank for Economic Development in Africa. Outside its major contributions to the IMF and the World Bank, it has paid \$1.9bn over the 1973-76 period to these institutions. But these contributions appear relatively small set against the \$10bn which UNCTAD and DAC statistics reckon Saudi Arabia has disbursed in total aid over the same period.

The bulk of Saudi aid is handed out in the form of grants or very concessionary loans by the Ministry of Finance on the orders of senior Government members to countries where Saudi Arabia has a major policy interest. Two key areas are the Middle East and the Horn of Africa, where the Kingdom is a major benefactor of Somalia.

The aid of Abu Dhabi and Kuwait is concentrated in these areas, too, indeed, through a succession of agreements, the confrontation states benefit very substantially from the surplus states, to the extent of heavy dependence, Egypt alone absorbing billions of dollars a year. After areas of confrontation come politically important Arab states such as North Yemen: nearly a third of whose recurrent and development finance comes from Saudi Arabia. The recent Arab League decision to freeze relations with South Yemen could result in Abu Dhabi and Kuwait cutting their aid to Aden, which Saudi Arabia has been pressing them to do, for the past nine months or so, ever since its own relations with South Yemen, at one stage fairly warm, became cooler. Outside the Arab world, aid to Africa is assuming ever greater importance, with last year's decision by a conference of Arab and African leaders culminating in a pledge of \$1.5bn over the next five years in aid to Africa. Asian countries, especially Islamic ones such as Pakistan and Malaysia, are beneficiaries of Arab aid, and Latin American countries are beginning to benefit.

Aid that does not flow through the development funds comes in a variety of ways, some of it being project aid disbursed by Finance Ministries with controls similar to those imposed by funds (for example, a large part of Abu Dhabi's aid is project aid, mainly for infrastructure, but is handled by the Finance Department, not the Abu Dhabi Fund).

Arab states have been criticised for their reluctance to provide budgetary or balance of payments support, especially to countries like Sudan that have payments problems at least in part because of the enormous inflow of aid. In fact, several countries receive such support from Arab states—the confrontation states, Morocco and North Yemen all receive it, while Sudan did until late 1978. While Saudi Arabia is a major contributor to the OPEC special fund which gives balance of payments support, such assistance tends to go to states of major political importance at the time, and, more significantly, is rarely institutionalised, so that states must constantly send senior emissaries back asking for more. This gives countries like Saudi Arabia political and economic leverage over deficit countries, like Sudan, which it has lately steered into reaching agreement with the IMF.

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ARAB BANKING AND FINANCE VII

LONG TERM FINANCE

Solid base established

WHEN BUSINESS in the Arabian Peninsula was little more than buying and selling more than a three-year period and the importing of consumer goods, all financing was essentially short term. The business of banking thus became mostly accepting deposits and issuing letters of credit.

As oil money began to flow in the area, the existing commercial banking structure, was placed under great strain. Banks were called upon to finance housing and simple development projects, even agricultural development projects, for which their financial structure and their local management were neither intended nor qualified. At the same time, these banks found that they were getting an increasing volume—in some cases a very large volume—of government business, all of it short term. Government business meant initially receiving oil payments and making payments from government accounts, business that was as profitable as it was easy. The apparent simplicity of the operation attracted many banks to countries such as the UAE (more than 50 commercial banks) and Oman (20).

None of these banks were structured to provide longer

term finance. In the boom conditions of 1974 and 1975, housing loans with a three-year period and the commercial banks' most ambitious entry into longer term lending. In those heady days, there was an adequate demand from expatriate managers, technicians and experts of various kinds who were prepared to pay the high rentals asked so that a bank loan could be paid off in time and a further loan raised on more property for letting to still more foreigners.

Commercial banks at this time would look warily at small industrial investment projects proposed by their more go-ahead clients though sometimes would place a careful toe in the uncharted waters of longer term finance. In general they would not look at agricultural projects.

Content

As long as governments in the area were content to regard the oil industry as their one significant economic activity, there was little call for longer term finance. This situation changed rapidly after the oil price increases of October, 1973—January, 1974. The Kuwaitis recognised throughout the area

as the pace setters in the development of financial and investment institutions, had already founded institutions whose charters of incorporation and management permitted them to enter the longer term finance field. The well known "Three K's," the Kuwait Investment Company (50 per cent government owned), the Kuwait International Investment Company (privately owned), and the Kuwait Foreign Trading, Contracting and Investment Company (owned 80 per cent by the Government of Kuwait) were active in longer term financial deals though most of their business was concerned with real estate development.

The Government of Kuwait realised that longer term projects were not as readily available as it should have been, and so founded late in 1974 the Industrial Bank of Kuwait (IBK). Forty-nine per cent of IBK's equity is held by the Kuwait Government, through the Ministry of Finance and the Central Bank. The balance is held by the private sector, especially banks, insurance companies and larger business enterprises.

The Industrial Bank of Kuwait is empowered to finance industrial development in Kuwait and in the Arab states of the Gulf. Its objectives include the definition of industrial and investment projects, the provision of equity capital as well as medium and long-term finance, and to import technology by finding, if necessary, foreign partners to participate in joint ventures.

As at the end of 1977, IBK had agreed to provide finance for 65 projects with a total investment potential of KD 125m (\$490m). The bank had agreed to commit KD 1.3m in equity capital and KD 62.5m in loans to these projects. The largest single sector of its business was construction materials, where 42.6 per cent of its money was invested, followed by chemical products and processing (11.2 per cent) and marine services (7.8 per cent).

Kuwait also has its own financial institution to finance building construction and domestic housing.

Provided

Longer term finance in Saudi Arabia is provided for the most part by six government sponsored institutions, the Agricultural Bank, the Saudi Credit Bank, the Saudi Fund for Contractors, the Public Investment Fund, the Saudi Industrial Development Fund and the Real Estate Development Fund.

The titles of these institutions gives an indication of their functions. All are recent creations, and the Saudi Industrial Development Fund (SIDF) for example was established in 1974 with a

capital of SR500m (\$142m) to promote industrial development in the kingdom. In November, 1975, its capital was increased to SR3bn (\$849m), and SR3.5bn (\$1,012bn) in December, 1976.

According to its annual report for 1976-77, it has so far lent more than SR7.5bn (\$2,160m). Almost 70 per cent of this total went to finance power projects in Saudi Arabia, with the balance going to small industrial projects. Typical of such small projects is a Saudi-Japanese joint venture between Jamjoom and Brothers of Jeddah and the Japanese Hino Motors. SIDF has lent SR12m (\$3.3m) to the joint venture to help finance a SR18m truck assembly plant. The loan is repayable over 15 years with a grace period of five years, and carries interest at the rate of 2 per cent per annum.

Some of the problems of creating longer-term financial institutions were experienced by the Saudi Real Estate Development Fund. Also established in 1974, the fund makes interest-free loans to Saudi citizens to help them build their own houses. Currently its capital stands at SR23.8bn (\$6.6bn). It has so far provided almost 80,000 loans totalling more than SR21bn (\$6bn) for the construction of some 100,000 houses.

From the day of its formal opening, the fund's managers practised a liberal lending policy. The enormous funds available to the Government of Saudi Arabia, providing free credit to Saudi citizens to build their own houses makes social, political and economic sense. Unfortunately, however, the easy credit available caused private sector building to join in the competition throughout the Kingdom for scarce building materials and labour, thus adding fuel to the fires of inflation. Also, many wealthy Saudis, who had no need for free credit to build their houses, benefited while the poorer and less sophisticated citizens tended to lose out.

Oman established a housing fund in 1975. This has recently been enlarged with Kuwaiti capital. Oman has also this year established its own Development Bank.

The United Arab Emirates, have yet to found any form of national industrial or housing bank or fund and the UAE Development Bank is virtually defunct. This lack is yet another example of how the political ambiguity of the federation holds back development. Yet businessmen in the UAE are not without sources of longer term finance. Merchant banks such as Wardley (Middle East) are active in the area, and European based bankers are frequent visitors. The larger and sounder based merchants and business houses have been able to raise longer term capital on the Euromarket. For example, Mohammed bin Masoud

and Sons of Abu Dhabi have this month obtained a \$6m loan to purchase aircraft for their wholly owned subsidiary, Emirates Air Service. The loan was managed by the Khalij Commercial Bank and Wardley (Middle East).

The lack of a Federal Government policy has not prevented the establishment of investment companies in the UAE, often with capital of the governments of individual emirates, and often also with Kuwaiti capital as well. Five such companies with a combined capital of DH 2.1bn (\$40m) currently operate, though they are more interested in real estate and securities outside the area than in the provision of longer term finance within the UAE.

Another source of long-term finance is, of course, provided by stock exchanges. The Jordan Stock Exchange opened for business on January 1 this year in Amman. Shares of 63 Jordanian companies with a total capital of JD 210m (\$648.1m) are traded on the exchange and the issue of new share capital should therefore be possible. At the present time, only Jordanian companies may operate on the exchange, but the long-term intention of the authorities is entry by other Arab companies.

Quoted

Kuwait has had a stock exchange for some years. Only Kuwaiti companies are quoted, only Kuwaiti citizens may be shareholders in banks and other businesses quoted, and only Kuwaitis may buy and sell shares. The Government and the Kuwaiti financial community has just emerged from an embarrassing situation caused by the collapse of a stock exchange boom. To hail out many private citizens and institutions left in an exposed position by the collapse of the boom, the Government had to intervene in the market in December 1977. This intervention has now formally ceased, leaving the market both sadder and wiser.

As the Arabian Peninsula develops generally, so its financial institutions develop. Progress over the past four years has been dramatic. There is still a long way to go before the area develops as a genuine long-term money market, but a solid base has been established. The Kuwaiti leadership is increasingly recognised, not least by the Kuwaitis themselves. In the words of the Governor of the Central Bank of Kuwait: "After you develop a money market and capital markets, with Kuwaiti institutions running them, then perhaps—nobody knows—the scene may be witnessed and the activities will be extended beyond our boundaries."

John Townsend

AID

CONTINUED FROM PREVIOUS PAGE

Saudi Arabia, the State must often turned to for balance of payments support, is reluctant to acquiesce because it is afraid that the money will be wasted or misappropriated without any way of stopping it, and because it has no mechanism to monitor the economic policies a country follows in efforts to correct its balance of payment. Hence as in the case of Sudan, it prefers to see the IMF secure the local government's acceptance of unpleasant economic measures and then consider offering cash support. The creation of the Arab Monetary Fund could lead to Saudi Arabia handing to this body responsibility for economic monitoring and disbursement of balance of payments support.

The Arab development funds are more important than the size of their disbursements, set against the total of the oil states, would suggest. They are permanent institutions staffed by experts and motivated almost entirely by high principle; although they are rarely totally free of political interference; and unlike Finance Ministries they are free to concentrate almost single-mindedly on how best to assist other developing countries.

Impressive

Their performance may at first sight appear less spectacular, but in fact it is rather impressive when one considers the greatly increased rate of firm commitments and the fact that only three of the seven or eight Arab aid-giving institutions were operating before 1974. The funds' operations are limited by the flow of viable proposed projects to them from recipient countries, which may be slim; by the need to make feasibility studies and assessments and arrange co-financing; and by the fact that once a project has begun, disbursement can only proceed as fast as implementation, which depends on how fast the recipient government can organise work.

Seven institutions can be regarded as Arab aid organisations. The oldest of them is the Kuwait Fund, which began in 1961 with the independence of Kuwait. By the end of the 1975 financial year the Fund's disbursements had reached \$650m, while commitments were \$1,650m. Its total lending potential, including authorised borrowing, amounted to \$11.5bn.

The Abu Dhabi Fund for Arab Economic Development was established in 1971 and by early this year had disbursed about \$180m, against commitments of \$418m and total lending potential of \$1,930m.

The Saudi Fund for Development was set up in 1974 when the Kingdom at last acquired the funds to make large-scale aid-giving a possibility. In a remarkably short time its commitments have reached \$2.7bn, close to its authorised capital of \$2.9bn, so that disbursements have already reached \$280m.

These three national funds can lend almost anywhere, though the Abu Dhabi Fund is not authorised to lend to Latin America. A fourth national fund, the Iraq Fund for External Development, is a much smaller institution, which keeps a low profile and shuns close co-operation with other funds. It did not have its own administration until 1976. So far it has made loans to five countries.

The multilateral funds have

more complex jurisdictions. The Arab Fund for Social and Economic Development, based in Kuwait, became operational early this decade. It is assigned a broad role in looking at Arab economic development on a wider plane and drawing up schemes for such things as Arab food production (based on the development of Sudan), telecommunications, manpower and so on, and looks specifically for projects benefiting more than one country. Its approved assistance amounts to \$1,020m and its total lending resources amount to \$4,140m.

The Islamic Development Bank is one of the institutions which came into being in 1974. It is an international organisation with about 30 members, all of them Muslim countries, and it operates according to the Islamic sharia and does not charge interest. Instead it finances itself by the proceeds of trade financing, leasing, profit sharing and direct and indirect equity participation. It can, however, make a service charge on loans and has so far concentrated on co-financing with other funds, though it has also undertaken other financial operations, including taking equity stakes. Its subscribed capital is \$956m, and it has approved commitments totalling \$273m. As a bank it exists for the benefit of its members; it counts as an Arab institution since the bulk of its capital is inevitably subscribed by Arab States, with Saudi Arabia the biggest shareholder.

The Arab Bank for Economic Development in Africa (often known by the acronym of its French initials, BADEA) is charged specifically with the task of channelling Arab aid to non-Arab Africa. The biggest contributors to its subscribed capital (now standing at \$392m) are Saudi Arabia, Libya, Iraq, Kuwait and the UAE. Based in Khartoum it has been very active since its formation and has committed \$210m.

Closely

To overcome the problems of shortage of staff the funds, with the exception most of the time of the Iraq Fund, co-operate closely, exchanging information and sharing feasibility study work, usually taking on trust other funds' assessments of projects when agreeing to co-financing, which is the usual pattern for most of the funds' lending. They co-finance not only with each other but with institutions such as the World Bank and western funds.

Africa has lately become the focus of much of the funds' attracting a growing portion of each fund's lending. The Abu Dhabi Fund plans to devote about half its 1978 lending to Africa this year. The Saudi Fund is to administer \$850m of the \$1bn which Saudi Arabia pledged to Africa last year. BADEA, of course, lends only to non-Arab African countries.

One area of funds' activity that is often neglected is how they deploy their undistributed funds, since disbursement during the life of a project can be slow. The funds' policies differ, some favouring bonds, others more liquid investments—in view of the rising rate of disbursements. The priorities for most funds are safety and liquidity, with the rate of return coming third.

James Buxton



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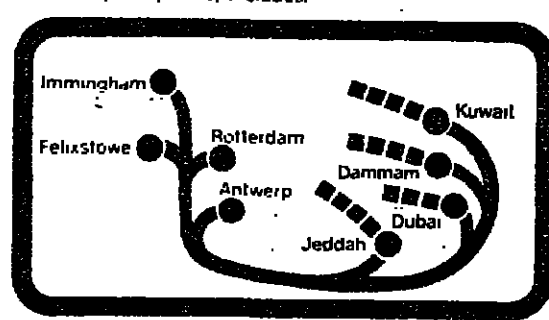
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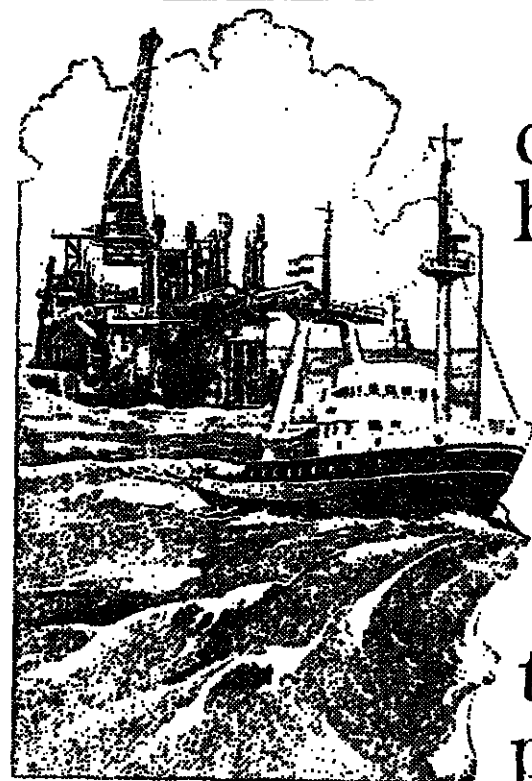
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ARAB BANKING AND FINANCE VIII

ARAB MONETARY FUND Ambitious venture

A FEW weeks ago the Arab Monetary Fund commenced public financial operations. Not with a concessionary facility to a member country with payments problems but by participating in a \$120m Eurocurrency loan for Algeria.

The decision may have come as a surprise to people who saw the AMF, formally established in 1976, as the Arab World's version of the International Monetary Fund, directed primarily at assisting countries with balance of payments disequilibria. Until recently the debate has concentrated on how closely the AMF would resemble the IMF in its operations, and the degree to which it might be a "softer" version of the IMF, providing balance of payments support in a similar way but being a little less rigorous than the IMF in insisting on economic and financial reform programmes.

In fact the AMF's form of entry into the financial markets reflects its wider brief and broader range of aims than those of the IMF, and also the fact that with its far smaller financial base than the IMF it needs to operate as a commercial institution.

The decision to set up the AMF was taken at a meeting of the Economic Council of Arab League in Rabat in 1976. The agreement reached there came into force in February, 1977, and at the first meeting of the board of governors in April last year. Dr. Jawad Hashim, a former Planning Minister of Iraq, was appointed president. The Fund made clear at its annual meeting this April that it should make its first concessionary disbursements later this year.

AMF's authorised capital is 250m Arab Dinars, an Arab Dinar being a unit of account equivalent to three SDRs. The AMF's 20 member states are now in the process of paying up the second 25 per cent of the capital, which will bring the paid up capital to around \$470m in May, 1979. But it is a condition of the second portion being paid in that the Fund should disburse half of its paid up capital by the same deadline.

The problem which most deeply concerns the AMF, apart from the high cost of operating in Abu Dhabi, where it has its headquarters, is the relative smallness of its capital base compared with the size of the financial commitments it could have to make. All states will have the automatic right to draw up to 75 per cent of their paid-up subscription should they have a balance of payments problem. In addition member states may be able to obtain a

ARAB MONETARY FUND: CAPITAL SUBSCRIPTIONS

(million Arab dinars; AD 1 = SDR 3)

	Number of Shares	Value of Shares
Total	5,000	250.0
Algeria	750	38.0
Bahrain	80	4.0
Egypt	500	25.0
Iraq	500	25.0
Jordan	80	4.0
Kuwait	500	25.0
Lebanon	100	5.0
Libya	185	9.3
Mauritania	80	4.0
Morocco	200	10.0
Oman	80	4.0
Palestine†	34	1.7
Qatar	200	10.0
Saudi Arabia	750	38.0
Somalia	80	4.0
Sudan	200	10.0
Syrian Arab Republic	80	4.0
Tunisia	100	5.0
United Arab Emirates	300	15.0
Yemen Arab Republic	100	5.0
People's Democratic Republic of Yemen	80	4.0

† Palestine has not yet ratified the Agreement.
Data: Arab Monetary Fund.

loan on concessionary terms from the Fund in support of a financial programme to be agreed with the Fund, and in the case of a severe balance of payments problem the AMF would, like the IMF, provide funds according to a programme of economic and financial reform agreed between the member states and the AMF.

In addition a member state may be able to borrow up to 100 per cent of its paid-up subscription to meet some unforeseen balance of payments disaster such as crop failure. The limit to borrowing by member states in any one year is three times its paid up subscription, but later this may be raised to four times with the agreement of the board of governors.

The AMF could obtain more capital from its richer members such as Saudi Arabia and Kuwait, which have big surpluses. Indeed there is a school of thought within certain Arab political circles, and even in the Fund itself, which believes that the AMF ought to be an instrument for redistributing the surplus of the rich Arab states to the deficit countries. But that view does not accord with the way the rich countries see their surpluses; they might be prepared to channel their existing balance of payments aid for different countries through the AMF, but only so as to have wider backing in making sure those countries take unpleasant, but perhaps necessary, action on their economies.

Hence the AMF's need to Fund staff make clear that the

institution is a bank, indeed among its declared objectives is advising States on investment and promoting the development of Arab capital markets. "We will be strictly accountable for the funds we disburse," they say.

The working of the fund will become clearer over the next two years. It is likely to start with allowing the drawing on share stakes by member countries, and then move cautiously towards its first loans, not at once committing itself to the limit in the case of each country. Senior fund officials say that it will be hesitant in going to the market for some time to ensure it obtains a good credit rating. But Dr. Hashim recently told the New York Times that the AMF would be selling \$2bn worth of bonds to Arab governments next year. They would either be denominated in Arab dinars or in other international currencies, he said.

The first countries likely to come to the AMF for balance of payments support are generally expected to be Egypt and Sudan, entitled to about \$70m and \$28m respectively. Dr. Hashim has said that the Fund expects 11 Arab countries to have a payments deficit this year, and will therefore be entitled to come to the Fund.

The AMF's recent participation in a \$120m loan for a State-owned Algerian bank should be seen as stemming from the AMF's need to establish itself as a commercial financial institution. The AMF is co-managing the loan but its stake is not known, though it is thought to be from \$5m-10m upwards. It also reflects the fact that the AMF has surplus funds available, especially since it suffered what appeared to be a reverse when the U.S. Government ruled that its investment of its deposits in U.S. Treasury bonds was not exempt from U.S. withholding tax, the Fund not being a sovereign State.

The next two years are likely to be crucial in determining how the Fund actually operates and how far it wins the confidence of Arab States. It has the potential to become a good example of inter-Arab co-operation, but it could also face tricky political problems, which could rebound on its financial standing. Its ultimate aim is to foster Arab currency and economic unity. The difficulties encountered in the way of Gulf currency union are not encouraging, but simply by being an extra source of badly needed balance of payments support for the deficit states it will provide a major function.

J.B.

OMAN

An era of stability

AFTER SOME two years of economic uncertainty, Oman now seems to be settling down to an era of stability. Government finances have been brought under tight centralised control, soaring interest rates triggered by "bitter" competition for deposits among commercial banks have been contained, and the overall growth pattern appears set on a steady and well modulated course.

The result is that the pessimism pervading the business community is being replaced by tentative optimism for the medium and long-term future, although the immediate outlook is still regarded as far from buoyant. Oil production, accounting for around 90 per cent of Government revenue, is declining and the large reserves of natural gas recently discovered will take some time to bring on stream. The same applies to other income generating projects presently at the initial stages of implementation, such as the 1m tonnes a year cement factory and the copper mining and smelting scheme in the north.

The final accounts for 1977 clearly reflect the slowdown in the economy as Government expenditure fell for the first time since development began with the accession to power of Sultan Qaboos in 1970. Ending up nearly 150m Omani Rials lower than it planned, it went down to OR538m from OR581m in 1976, the largest cuts being in civil development from OR181m to OR130m and defence and national security from OR271m to OR237m. However, revenue rose more than anticipated from OR487m to OR520m, leaving a net surplus of OR73m after accounting for OR93m in grants and a final surplus of OR42m after loan receipts and repayments.

The scales are tipped in the opposite direction in the budgeted balance sheet for 1978 as revenue is expected to drop to OR 455m due to the fall in oil output and the probable lack of any significant price increase, whereas OR 700m has been allocated for spending, of which civil development represents OR 222m and defence and national security OR 265m, a smaller proportion of the total than in the past.

When the budget was published in April, a good four months earlier than in the previous two years, committed grants stood at only OR 28m and loans at OR 98m. Therefore the Government is depending on a further OR 116m to be provided from outside sources to produce a final deficit of OR 50m after debt service payments.

The total foreign debt at the end of last year stood at OR 176m, a net increase of OR 30m over 12 months before, and over three-quarters of this was in the form of soft loans from Arab development funds, other institutions and "friendly" governments, notably Saudi Arabia, which is injecting huge sums into Oman's economy.

The last time Oman raised Eurodollars was three years ago when it ran into critical cash flow problems, and it is resolved to go to the international market again only as a last resort measure. The Government has also reduced its borrowings from commercial banks operating in the Sultanate to the lowest point in three years, from OR 89m outstanding in December 1976 to OR 56m in 1977, but may well have to step them up again if the finance from elsewhere does not come up to expectations.

No doubt this would help to stimulate the banking sector, whose growth was negligible in Omani terms last year. Commercial houses' assets rose by only 17 per cent to OR 321m compared with 39 per cent

between 1975 and 1976, while credit expanded by a mere 7 per cent (42 per cent in 1976) and the money supply by 10 per cent (also 42 per cent).

Having suffered from a severe liquidity shortage for several months, banks ended the year by lending to 80 per cent of their deposits, instead of the allowed maximum of 85 per cent. This was due partly to an increase in Government deposits as those placed by the private sector were exceeded by the credit it received, OR 156m against OR 173m, whereas they were equal at around OR 120m at the end of 1976.

Construction and trade, two of the main sectors absorbing bank finance, have undergone a relative depression, but imports at least appear to be reviving slightly as merchants rebuild inventories after running down surplus stocks. Loans outstanding for imports last December amounted to OR 80m, compared with OR 59m the previous year, an indication which is, however, distorted by the fall in the purchasing power of the Omani Rial as it has fixed parity with the dollar. The construction industry's fortunes seem rather more anomalous as the loans for building and materials on commercial banks' books rose from OR 24.5m in December, 1976 to OR 35m 12 months later, even though rents of residential property have plummeted and the number of unlet units in the capital area is said still to be well into the thousands.

Like all other sectors of Oman's economy, banking has grown vastly in scale in a remarkably short period. The British Bank of the Middle East opened in 1948 and had the

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ARAB BANKING AND FINANCE IX

SAUDI ARABIA

Tight controls

BY THE simple expedient of allowing no new banks to set up in the country the Saudi Arabian Monetary Agency (SAMA) has been able to keep a strict control on the 12 existing banks and the other Saudi-based financial institutions. Since 1973 and the huge growth of banking and finance activity in the Middle East, while other Gulf states like Bahrain and the United Arab Emirates opened their doors to foreign and off-shore banks Saudi Arabia has kept those doors firmly shut and hoped that the 12 banks would expand to meet demand.

Demand has patently outstripped supply. While the banks have expanded, the proportion of banking activity to total money supply has hardly increased. A lot of the business has been captured by the money-changing houses outside the jurisdiction of SAMA or has been siphoned out of the country altogether to Bahrain and other money centres.

In some ways this has been Saudi Arabia's loss: it has missed out on the huge influx of investment and expertise that the banking sector in Bahrain has enjoyed, and SAMA's business, which it would like to see handled by domestic banks, farmed out to bankers across the water. But the gain is that local banks have been able to develop under less pressure, and so has the entire Saudi financial system.

In the congested and fraught early years of the Second Development Plan, launched in 1975, an extra burden would have been placed on Jeddah, both the main port and the commercial and financial centre, by a race to establish a fleet of offshore banks, as in Bahrain. Saudi Arabia may have done well to pass the buck to other than the Saudi-led, but the result has been, however, that the Bahrain offshore office in Jeddah, and negotiations for Saudiisation are under way. The Banque du Caire has also said that it is negotiating.

system, beyond the direct control of SAMA but taking an ever-increasing share of the Saudi banking market.

SAMA's objective, in the face of this "poaching" from abroad, has been to broaden the capital base of the existing Saudi banks and to insist on increasing Saudi participation in the foreign banks on Saudi soil. "Saudiisation" has been SAMA's declared policy for several years, and one by one the 100 per cent foreign-owned banks are turning into joint stock companies owned 60 per cent by Saudi interests.

The most recent Saudiisation has been the Saudi-British Bank, which formally took over the assets and liabilities of its predecessor, the British Bank of the Middle East on 1 July. Three other banks had previously been Saudiised. The Banque de l'Indochine et de l'Extrême Orient became Al-Bank Al-Saudi Al-Fransi in 1977, the Algemeine Bank Nederland became Al-Bank Al-Saudi Al-Hollandi in 1976, and the National Bank of Pakistan became the Al-Jazira Bank in July 1975.

In the first three cases the foreign bank retained a 40 per cent shareholding, and a management contract for eight years. The remaining 60 per cent of the shares were spread between Saudi founder shareholders, members of the board, and subscribers from the Saudi public. In the case of the Al-Jazira Bank the foreign shareholding is only 35 per cent.

Six other foreign banks remain to be Saudiised. The most important of these is Citibank. There had been speculation that Citibank would pull out of the country altogether rather than be Saudiised, but it has just built a new head office in Jeddah, and negotiations for Saudiisation are under way. The Banque du Caire has also said that it is negotiating.

but the other four, the Arab Bank, the Banque du Liban et d'Outre Mer, Bank Melll Iran and United Bank of Pakistan have so far kept their plans under wraps.

Saudiisation offers foreign banks two major advantages despite depriving them of 60 per cent of their profits: they are able to increase their capital, and they have the opportunity to open new branches throughout Saudi Arabia. Ideally, the result of Saudiisation will be a gradual, regulated spread of bank facilities in the country, at the same time fostering banking skills among the Saudis themselves and giving the Saudi public a vested interest in the banks. The country's two wholly domestic banks, National Commercial Bank and Riyad Bank are also planned to become joint stock companies, selling 30 per cent of their shares to the public. In effect, it may be some time before the banks are run mainly by Saudis. There is already said to be a problem in finding Saudi entrepreneurs interested in sitting on the boards of the new Saudiised banks.

A shift in emphasis may be felt when SAMA moves physically from Jeddah to the capital, Riyadh, later this year. The banking centre today is definitely Jeddah, and until this year Citibank was the only non-Arab bank with a branch in Riyadh. Both the Bank Al-Fransi and the Bank Al-Hollandi have now built Riyadh branches, and the Saudi-British Bank will surely follow. The Eastern Province, despite being the centre of the oil industry, is more or less a banking desert, with only a few branch offices there and the head office of United Bank, the smallest bank in the country. But Bahrain is just over the water, a few minutes by air, one of the fastest-growing financial centres in the world.

The money-changing houses Some of these houses are highly

compete with the banks for short-term financing business, capitalised and far quicker and more efficient in their dealings than the banks. A private individual wanting to change money quickly would never go to a bank but would go to a money-changer, where sackfuls of riyals are handled every day.

The biggest institutions for medium- and long-term lending are the special development funds set up by the Government. These funds make capital loans for a nominal interest or "service charge" of around 2 per cent. The Saudi Industrial Development Fund finances industrial ventures, the Real Estate Development Fund makes home loans and loans for real estate projects, and the Agricultural Bank subsidises agricultural inputs.

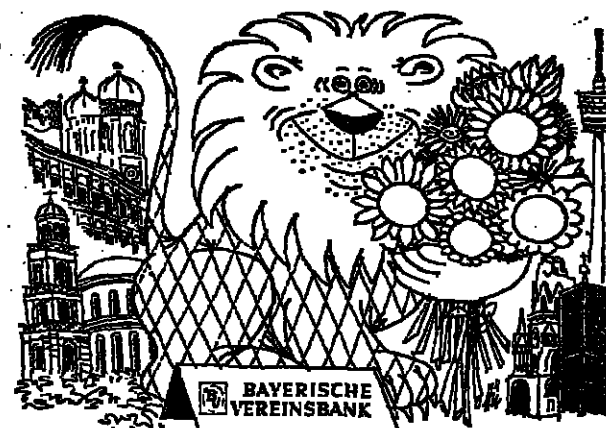
There are, however, limits to the amount these funds may lend to any one project—for example the SIF cannot supply more than half the capital requirements of a company that is less than 75 per cent foreign-owned, and here there is a role for the predominantly private sector Saudi Investment Banking Corporation (SIBC), which began operating more than a year ago and has already lent to more than 100 projects with loans totalling more than SR 350m. To some extent it is taking from the commercial banks some of their longer term lending—which they may not be sorry to see depart. Hampered so far by its relatively small capital of SR 30m, the SIBC today (July 24) trebles its capital to SR 90m and will thus be able to increase its maximum loan size. Chase Manhattan, which has a 20 per cent stake in the bank, has the management contract.

Exciting

Import financing is the banks' main job, but the most exciting banking activity in Saudi Arabia is the financing of huge contracts awarded by the Government as the Second Development Plan progresses into its third year. The contracts require on-demand bid bonds, performance bonds and advance-payment guarantees to be put up by the contractor: for a SR 1bn contract the guarantee facility can be as much as SR 250m.

SAMA restricts the liquidity and lending ratios of the banks. Half the amount of any deposits over the limit of 15 times a bank's capital and reserves must be placed interest-free with SAMA. No bank without special permission from SAMA, may arrange an individual loan or guarantee which exceeds 25 per cent of its capital and reserves. This means the banks are out of the big league when it comes to financing contracts the size of those now being awarded. Instead, they generally act as agents, on a small percentage fee, for foreign banks approved by SAMA. For sophisticated loans and guarantees, often requiring international syndication, the tendency has been increasingly to use the Bahrain market. Bahrain banks offer better interest on deposits than Saudi banks and they are a cheaper source of Saudi riyals, although the effect of competition from Bahrain has been slowly to close these differences. A year or two ago Saudi banks were offering only 1-2 per cent on six-month deposits, but that has risen a little now. Three-month money, which used to cost around 7 per cent, can now sometimes be found at 4-5 per cent.

Greetings from the BV Lion to the Middle East



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OMAN

CONTINUED FROM PREVIOUS PAGE

restricted market to itself until Bank established a branch in 1968. Since then another 18 banks have been granted operating licences, bringing the number of foreign houses to 14 and those locally incorporated to six.

It was decided some time ago to limit the number to 20 as the level of business did not justify any more newcomers, and it remains to be seen whether the efforts to expand the economy will lead to a relaxation of this policy. Meanwhile banks have been encouraged to open branches in the more remote areas of the country, instead of concentrating solely on Muscat and its environs, and as a result there is a rapidly growing network, including the southern region capital of Salalah, where the Central Bank is soon to open an office. The town already has its own clearing house and currency sub-chest, for which the largest local bank, National Bank of Oman, is agent.

Since replacing the Oman Currency Board in April 1975, the Central Bank has gained considerable ground as the Government's and bankers' bank, backed up by a wide-ranging banking law enacted in 1974. As well as issuing licences to commercial houses, conducting annual inspections and publishing comprehensive economic and financial data, the Central Bank

is in the process of setting up a central record of risks and plans shortly to start offering credit facilities to banks operating in the Sultanate. It is also currently drawing up new regulations defining net worth in the context of the Oman system (last year the maximum loan permitted to any one customer was raised from 10 per cent of a bank's net worth to 20 per cent), capital adequacy and reserve requirements, now standing at 5 per cent of demand plus time deposits.

The central authority has an impressive track record of maintaining a stable banking sector. On two occasions it has changed the lending ratio to achieve an expansion or contraction of credit and last year intervened twice to bring down the spiralling interest rates by obtaining bankers' voluntary agreement on maximum levels, since January 1 standing at 91 per cent on time deposits and 111 per cent on loans. Furthermore, it has ruled that all local banks must be more than 50 per cent Omani owned.

There are two new institutions whose impact on the commercial banking community will remain unquantifiable for some while—the Oman Housing Bank, which began operating earlier this year to finance residential property owned by Omani nationals, and the Oman

Development Bank. This is now being set up with a capital of OR10m, forty per cent of it held by the Government, 40 per cent divided between the Kuwait Foreign Trading, Contracting and Investment Company, the Arab Bank, British Bank of the Middle East, Chartered Bank, Grindlays Bank and National Bank of Oman and the remaining 20 per cent to be offered on public subscription to Omanis.

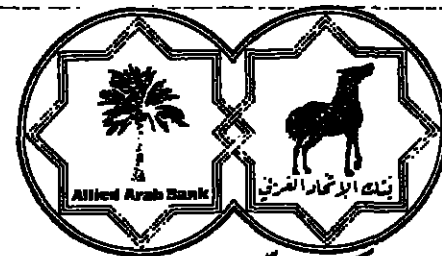
It will grant medium- and long-term loans for projects falling into five income earning categories, industry, agriculture, fisheries, oil and mining, and coupled with several new regulations that have come into force recently, should help to boost the private sector, which, it is felt in some quarters, has not invested sufficiently in its own country.

It is impossible to talk in absolutes when predicting the pace of Oman's economic development as the country is still reliant on one product for most of its revenue and is vulnerable to many external influences. Nevertheless, the fact that equilibrium appears to have been restored to Government finances and a number of measures introduced to ensure it lasts, augurs well for a "no-crisis" future, or at least one where controls can be exercised promptly if problems arise.

Barbara Casassus

David Shirreff

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In the year ending 31st December, 1977, total income was Saudi Riyals 53.0 million (1976: 30.9 million). Net profit for the year was Saudi Riyals 41.8 million (1976: 26.6 million).



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UNITED ARAB EMIRATES Business picks up

THE UAE has largely recovered its economic stability after the upheavals of 1977. Business is beginning to pick up, but at a more sober pace than before. The situation in property is far less alarming than it was, though there are still many unoccupied or unfinished buildings. Above all Government spending is so far continuing to increase.

The boom that ended last year was fuelled both by Government spending and by private sector activity, much of it highly speculative, and owing much to the existence of about 30 different banks in the Emirates. The collapse of the private sector boom was almost inevitable given the smallness of the consuming market and the over estimation of demand for property. It was finally knocked on the head by the action of the UAE Currency Board last May in not bailing out two banks which got into difficulties, and then following it with a number of measures which sharply curbed credit and liquidity.

The Currency Board's measures emphasised the power of the Abu Dhabi-based institution could wield and thereby stressed the economic interdependence of the states in the federation. But it has had the effect of making the Emirates, other than Abu Dhabi, more reluctant to see further economic integration: if anything, they have become more determined to preserve their independence.

Appeals

Abu Dhabi has resisted appeals from some groups in the federation to pump more cash into the economy at a very fast rate in order to re-ignite the economic boom that ended last year. But in effect its spending could increase this year by about 30 per cent. It is likely to spend about Dh8bn in the Emirate this year, more than ever before, and though it has said it will not commence any new projects next year and only a few in the two succeeding years in order to peg development spending at Dh6.9bn, that figure still represents a considerable increase compared with last year's actual figure of Dh4.3bn and this year's budgeted sum of Dh5.3bn.

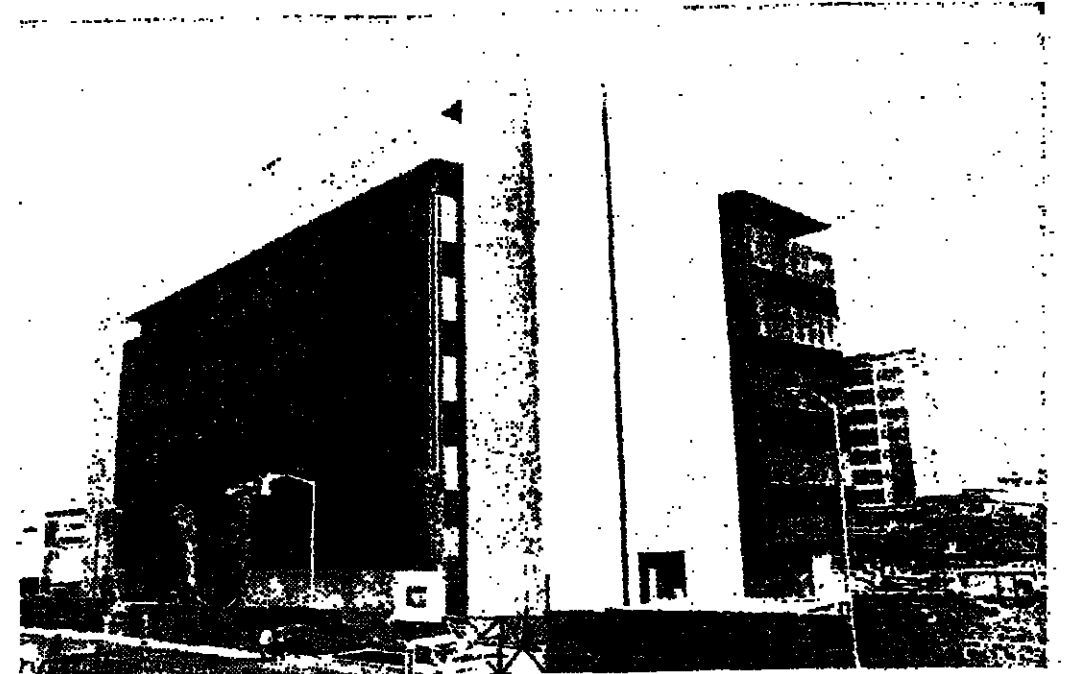
Though the future is left somewhat vague after 1981, it seems likely that by that time Abu Dhabi will have completed most of the infrastructure it can reasonably need, and since it is scaling down its large-scale industrial developments at Ruwais there may not be much left to spend large sums of money on. That may be just as well, because not only is the Emirate having doubts about the number of immigrants, it wants to have, but its spending is coming closer to its income. Last year the Emirate had an income of Dh 21.6bn, of which Dh 5.4bn was spent by federal ministries, between Dh 8bn and Dh 7bn within the Emirate (combined development and recurrent spending) and about Dh 4bn on aid, leaving a surplus estimated at between Dh 4bn and Dh 5bn to be transferred to the Abu Dhabi Investment Authority.

This year, however, income is likely to be at least 12 per cent down because of the drop in oil output. The Federal budget has been agreed at Dh 10.5bn, and although not all of that will be spent actual disbursements are likely to be higher than last year's and will probably depend almost entirely on Abu Dhabi for funds. With the Emirate's own spending at Dh 8bn, and aid as usual taking about Dh 4bn, the surplus is likely to be slender this year and could disappear altogether next year.

Not surprisingly, therefore, the Emirate is fairly deeply rethinking its strategy, and the balance of opinion seems to be firmly in favour of continuing to build up a surplus. The Abu Dhabi Investment Authority, which handles the Emirate's "pension fund" of overseas and regional investments, is believed to stand at between \$5bn and \$6bn.

While Abu Dhabi's domestic spending will assist the UAE economy, the federal budget will also be a factor. Its implementation rate has gradually risen from 1976, when Dh 2.5bn was spent, but it remains an inefficient motor of growth, and is heavily dependent for the supply of funds on the goodwill of Abu Dhabi towards the other Emirates, whose contributions to the federal budget have been minimal (though Dubai is believed to have paid over Dh 400m to Dh 500m last year).

There has been no let-up in Dubai's spending, which should be about Dh 1bn up at nearly Dh 5bn this year—excluding projects financed out of the Emirate's substantial borrowing. The majority of the spending is going on the developments at Jebel Ali, where a new port and industrial centre are being created. Some projects there



The new UAE Currency Board building in Dubai is being constructed by Costain International.

have been shelved, but the basic concept remains intact, even if the 74-berth port looks excessively large set against the amount of industry so far attracted there. However, this year is likely to be the peak year for development spending, with a large number of projects coming on stream either this year or next.

With the Emirate expected to have an oil revenue this year of about Dh 5.3bn, it may have a marginal surplus after debt servicing. The Emirate's outstanding loans total about \$340m in sterling and in dollars) about \$1.1m. Next year and the year after are likely to be the peak years for debt servicing — totalling about \$400m each year — after which this provision will decline gradually. So, however, will oil production, unless there are new discoveries. So while the ratio of debt service costs to oil revenue is likely to be about 30 per cent next year and in 1980, there is no reason for real concern, provided there is no disaster in the oil fields and no major new spending commitments.

Compared with Abu Dhabi, Dubai and the federal budget, the other Emirates provide relatively little economic stimulus to the UAE's economy. Spending in Sharjah is running down through shortage of money, though with borrowed funds it is working to complete most of the projects now in hand. Its latest \$200m borrowing had to be guaranteed by Abu Dhabi. Its hopes of becoming a financial centre have effectively collapsed.

Both the banks and the private sector in general are now accustomed to the more sober pace of development. The some of its activities (mainly in weaker and more exposed busi-

nesses, which were hit by the collapse of the boom, mainly went under, leaving the better established and stronger companies behind. In the banking sector one of the two banks which closed last year, the Janata Bank, has now reopened, having been refinanced, while it is expected that the other bank, the Ajman Arab Bank, will in due course reopen, but under a new name and with different management.

The banks' principal concern is the extent to which some local contractors are in debt to the banks because of their clients' failure to pay up. The policy banks are generally pursuing is not to bankrupt the contractors who owe them money out of fear of setting off a chain reaction of bankruptcies, which would ultimately be self-defeating. It is a moot point whether or not the banking sector is overhung with property either complete or nearing completion which will never find tenants. The consensus is that most buildings should eventually cover their costs, but less quickly than had been hoped by their owners. In both Abu Dhabi and Dubai there are factors causing continued property demand, but the new properties can only be completely occupied if older, less well-furnished apartments either fall into disuse or accept far less wealthy tenants.

The Currency Board has taken some fairly marginal measures to lift credit restrictions by reducing the banks' reserve facilities and by raising the limit on dollar swap facilities. But after the change of management just over a year ago the Currency Board has curtailed some of its activities (mainly in lending to other Emirates for

development and infrastructure projects) and has maintained a lower profile under its managing director, Mr. Abdul-Malik al-Hamar. It is taking a fairly unaggressive attitude in obtaining the compliance of banks with the regulations brought into force last year on reserve requirements, deposit ratios and capital size. Some of the locally incorporated banks must raise money from their shareholders, and others are hampered by their involvement in property.

But while the Currency Board, with the assistance of two advisers seconded from the IMF, is preparing to become a central bank, the prospect of that actually taking place has receded somewhat because of political disagreements among the Emirates. They fear loss of control of their development, since they would lose some control over their foreign exchange resources under the draft law. There are other threats to the existing system of bank ownership in the UAE, while the Currency Board's desire for rationalisation of the banking system by encouraging mergers between some of the smaller banks cuts at the family ownership basis of many institutions.

Although the introduction of Restricted Licence Banks (RLBs) in the UAE (institutions dealing in foreign exchange and other operations but not offering current account services to residents) got off to a slow start, both the investment department of the National Bank of Abu Dhabi and the Abu Dhabi Investment Company are becoming increasingly involved in regional and international borrowings.

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ARAB BANKING AND FINANCE XI

EGYPT

Long way to go

ON PAPER, the banking sector looks to be one of the success stories of President Sadat's open-door economic policy. Around 70 foreign banks and investment companies have taken advantage of Law No. 43 of 1974 encouraging foreign investors to open offices in Egypt. Many of them are concentrated in the leafy crescents of Garden City or the select avenues of Zamalek. Some of them, especially Chase National Bank and Citibank, are doing handsome business. But the benefits in terms of Egypt's economic development are not always clear.

The chief benefits to the economy of the arrival of foreign banks have been to shake the four Egyptian state-owned banks out of their complacency and give them a push in the direction of the 1970s; and to help channel money into the banking system—and thus the modern economy—which would otherwise remain outside it, either "under the mattress" or in the pockets of overseas bank accounts of Egyptian workers abroad.

The effects of foreign banks has thus been most noticeable on the retail side. People have flooded into the foreign bank branches and the many joint-venture banks set up by Egyptian and foreign institutions to open accounts, so much

ALGERIA

Better prospects

IN ALGERIA the past 12 months have been dominated by gas. The first shipments of liquefied natural gas from the large plant at Arzew in Western Algeria to the U.S. were symbolic in more ways than one.

First they confirmed that the state hydrocarbons company Sonatrach had mastered the technical skills of an industry which is often operating at the frontiers of technology. Foreign help there has certainly been—and some delays—but considering the size of the project, the largest LNG plant in the world, Algeria could afford to be proud of the result.

The fact that the shipments of gas were destined for the U.S. is also remarkable: the two countries seldom see eye-to-eye on any issue of international importance, but they have been co-operating increasingly on a whole string of projects, particularly in the field of energy.

Financial links with other countries are growing as a result. Eximbank, which had no exposure in Algeria at the beginning of the 1970s, now ranks the country as its sixth or seventh largest customer and is prepared to double that exposure to \$1.6bn if the contracts currently being negotiated go through. The Algerian leaders have always drawn a firm line between politics and business. Sonatrach over the next ten years will oscillate between \$5bn and \$9bn every year. Last year that figure was just over the \$5bn mark. Costs, however, will be incurred over the next eight years for the most part.

While about two-thirds of the foreign currency Sonatrach will need is expected to come in the form of export credits, the rest will have to come from the international banks. In addition to Eximbank's plans to double its exposure in Algeria, the Japanese export credit institution will have no problem in raising its ceiling so long as Algeria continues to purchase so many capital goods from Japan. With Italy and West Germany there should be no problem, while with France the situation still seems to be that Coface has more credit available than the Algerians wish to take up. This is the result of the

Inflow

The Sonatrach-Behchtel report says that if developments in the gas sector, in particular, go according to plan, the net foreign exchange inflow to Sonatrach over the next ten years will oscillate between \$5bn and \$9bn every year. Last year that figure was just over the \$5bn mark. Costs, however, will be incurred over the next eight years for the most part. While about two-thirds of the foreign currency Sonatrach will need is expected to come in the form of export credits, the rest will have to come from the international banks. In addition to Eximbank's plans to double its exposure in Algeria, the Japanese export credit institution will have no problem in raising its ceiling so long as Algeria continues to purchase so many capital goods from Japan. With Italy and West Germany there should be no problem, while with France the situation still seems to be that Coface has more credit available than the Algerians wish to take up. This is the result of the

Francis Ghiles

would be needed. Foreign banks, especially the American ones, were in the best position to provide these. Manufacturers Hanover Trust was the first U.S. bank to take advantage of the relaxation of Government policy in April 1975, when it opened the first and only so-called free zone foreign currency branch—that is, a branch which deals only with non-residents of clients based in free zones in Egypt. Since then, a host of "onshore" foreign currency branches (ones that can deal with residents as well as non-residents in foreign currencies), joint ventures and representative offices have opened at regular intervals.

Of the first four joint-venture banks to be set up, three were American banks: Chase National Bank, combining Chase (49 per cent) and the National Bank of Egypt (51 per cent). The fourth, the most successful, was the American Express Bank of America, American Express, Bank of America and First Chicago are among the other U.S. institutions involved in joint ventures with Egyptian banks. Citibank, in keeping with its policy of maintaining 100 per cent control of its operations wherever possible, opted for a foreign currency branch on shore, and is doing thriving business.

European banks were slower off the mark. Barclays was the first in 1975—surprising because it was still on the Arab boycott list at that time—with the Cairo branch. Since the equity split was 50/50 and not 49/51, the new bank was limited to operations only in foreign currency. Members of the European group became shareholders in the Misr International Bank along with Egyptian partners. Recently French banks—Paribas and Societe Generale—have been the main source of new ventures with Egyptian counterparts.

The most recent trend has been the formation of several institutions with shareholdings by Egyptians working abroad. The Nile Bank, for instance, brings together Egyptians at home (25 per cent) and those working in Saudi Arabia (75 per cent). Egyptians working in the UAE are 50 per cent shareholders in the \$10m Delta International Bank. The Alexandria Kuwait Bank International and the Delta International Bank have been formed along similar lines.

The authors of the foreign investment law intended that the arrival of foreign banks would fill the gaps in project and corporate finance left by the state Egyptian banks. But so far this intention has been largely disappointed. Only the Misr International Bank of the banks licensed since 1974 holds a commercial banking licence. The others are theoretically supposed to carry out investment banking functions. In practice, the only ones that do are the Misr International Bank and Cairo Barclays International, together with the two multi-national Arab banks long established by separate acts of the Egyptian parliament, Arab International Bank and Arab International Bank.

There is no shortage of foreign exchange in the economy, as remittances from workers abroad of some \$1.5bn last year (with more projected in 1978) show. These funds are fed into Egypt through the parallel exchange market. A further substantial amount of foreign exchange enters the country through the "grey" market, which is neither actively encouraged nor discouraged by the Government but which many bankers are unwilling to recommend to clients as a source of exchange because of the uncertain legal position.

The availability of foreign exchange has not, however, resulted in much of it finding its way into productive projects in Egypt.

This is perhaps partly because of the difficulty of assessing credit there. Many Euro-dollar credits on small projects are still advanced at rates of 2-3 per cent above the London inter-bank offered rate. A lot of bankers would argue that any risk that commands prime as high as that should not be done in the first place.

Brian Thompson

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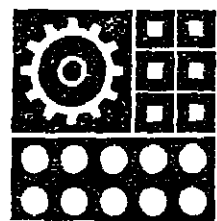
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ARAB BANKING AND FINANCE XII

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CONTINUING instability and uncertainty in Lebanon have curtailed banking activity over the past four years, and there is still no reason for undue optimism about the immediate future.

A few weeks ago, and for the first time since relative peace returned to Lebanon in November, 1976, an international loan syndication was sealed in Beirut for the Board of Reconstruction and Development (BRD), in charge of rebuilding the country after nearly two years of civil war.

The \$150m loan, lead-managed by the Bank of America, was regarded as an important sign of confidence in Lebanon's free-enterprise economy despite the painful setbacks suffered in the past decade—both domestically and on the broader Middle East level. These included the intra-bank crash of 1966, the Middle East wars of 1967 and 1973, and the civil war, which lasted 18 months.

Undoubtedly, there is something special about a banking sector that could survive all these crises. The Lebanese pound, protected from speculation, held up remarkably well despite the civil war and subsequent destabilising events, thanks to the conservative policy of the central bank, which has insisted on preventing it from becoming a reserve currency or being widely negotiated.

Until late 1975, Beirut was the unrivalled financial centre of the Middle East where western banks scrambled for a piece of the petrodollar cake. Being a natural magnet for Arab funds, Beirut attracted foreign currency deposits to the tune of \$4bn.

But the civil strife in subsequent months obliterated that image of the Lebanese capital. Several banks located in the battle zone in Central Beirut had to close down, others managed to set up temporary offices to serve their clients in safer areas, and still others moved their headquarters outside the country altogether. The majority of Lebanon's 74 commercial banks were forced to scale down their operations to handling current and deposit accounts.

Since reopening in January, 1977, no significant change has been made. Banking operations remained restricted to small-scale business such as receiving deposits, extending short-term loans to reliable clients, overdraft facilities to traders, letters of credit and so on.

Pre-war operations involving large amounts of money, foreign exchange dealings, loan syndication and other forms of wholesale banking are kept at a minimum, to say the least.

On the other hand, this situation has produced surplus liquidity in excess of LE14bn (around \$650m), including reserves. Bankers strongly reject the popular charge that their credit policies are over-conservative, or that they have a passive attitude towards the Government drive for the reconstruction of the country.

Several bankers have defended their policies on the following main counts: (a) The uncertainty of the situation in the country; (b) the absence of thoroughly studied and economically feasible projects; (c) the reluctance of many businessmen to commit themselves to new credit lines; and (d) the still unrecovered loans extended before the civil war and which have since been overdue.

However, the Lebanese banking sector in general has responded favourably to Treasury bonds with short and medium maturities issued during the past year to raise funds for the government. So far, nearly £1bn has been raised in this manner, and in most cases short-term maturity bonds were often over-subscribed, indicating the banks' conservative policies.

Few banks have extended credit to reliable clients whose business had been damaged during the civil strife. The basic criteria used for credit extension in such cases were the size of the damage and the prospects of resuming operations on a scale large enough to ensure repayment of the loan.

But as a whole, bankers find little risk in financing enterprises with a rapid turnover and

where returns on investment are inherently short-term. Specifically, importers of foods, raw materials and non-durable goods find it relatively easy to secure bank credit to finance their activity.

Occasional disturbances in the country over the past couple of years have brought about some structural changes in the Lebanese banking system, with foreign-owned banks considerably reducing the scale of their operations, applying a tight credit policy and imposing a minimum on deposits.

Temporary branches that were opened during the civil war appear to have acquired a permanent status, and their future is still being considered by the authorities. Normally, no new bank or branch of a bank can be opened without a prior approval by the Finance Ministry and the central bank. Government legislation has been passed regulating the opening of new banks in post-war Lebanon. The main feature of the legislation is that the central bank is given almost absolute powers to decide on new bank licenses, new branches, changes in any bank's by-laws, and merger of banks.

Another feature is that the minimum required capital of a new bank should not be less than \$15m (nearly \$5m), of which \$4.5m would be deposited with the Lebanese Treasury for as long as the bank continues to operate in Lebanon. Previously, the minimum capital required was \$3m.

A third feature is that foreign banks (of which there are 12) are now required to accumulate reserve funds by cutting 10 per cent of annual net profits on their operations in Lebanon. The same applies

on Lebanese banks, except that the 10 per cent is cut from their net profits on their overall operations inside and outside Lebanon.

The new legislation, passed last year, came after a ten-year moratorium on banks had expired. Earlier this year, licenses were given for the establishment of three new banks in the country. Under the money and credit law, they have six months to set up offices and start operating.

In an attempt to invigorate the banking system, the Government of Prime Minister Selim al-Hoss, himself a banker-turned-politician, passed further legislation setting up a free banking zone whereby non-resident foreign currency accounts are exempted from taxes on interest earned.

Furthermore, the government has established a number of new institutions to enhance the recovery process under a 12-

man board for reconstruction and development, headed by Dr. Mohammed Atallah (a banker). An agricultural credit bank, capitalised at LE50m (around \$17m) was also set up. It is 50 per cent Government owned.

A similarly supported Housing Bank was established to finance construction, repair and improvement of housing in the country. It is also capitalised at LE50m and the Government has a 20 per cent stake in it.

The law governing the establishment of specialised banks has also been amended. The new amendment raises the capital requirement for such banks from LE15m-LE30m, but exempts the new banks from paying taxes in the first seven years of their operations. However, they are still restricted by the two-year minimum deposits they are allowed to accept.

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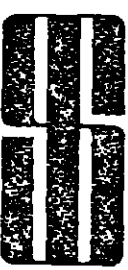


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JORDAN

Economic boom

BANKING AND finance in Jordan continue to be dominated by an overwhelming inflow of both private and public funds from outside the country, but there has been recent success in building up domestic institutions that are starting to generate the capital required to help Jordan attain its overall goal of economic self-sufficiency.

The greatest obstacle to the development of a sophisticated financial sector in the country has been Jordan's unenviable position in the eye of the Arab-Israeli conflict, with all the ravages and threats of conflict that this brings with it. Few investors would place much confidence—let alone their money—in Jordan during the 1950s and 1960s, a situation that endured after the 1967 war and the 1970 internal Jordanian-Palestinian fighting.

But a sustained economic boom based on a degree of internal control and stability that now goes unchallenged has revitalised Jordan's overall economic growth to the point where gross domestic product in real terms has been growing at an average rate of nearly 10 per cent during the past five years. The fuel for this performance has been money from outside the Kingdom, and from the private sector in Jordan.

This is dramatised by two pertinent counts—over half the projected JD765m in investments in the current five-year plan is to come from the private sector, and most of the Government's share of investment is anticipated from foreign concessional loans; and of this year's state budget of JD372m, only half will be met by domestic revenues, with the other half coming from direct foreign budget support and international development loans.

While this might worry any other country, it does not worry the Jordanians much because they have lived with this sort of situation ever since the Hashemite Kingdom was created about 50 years ago.

The five-year plan now in progress aims slowly to close the gap between state spending and domestically generated taxation and other revenues, but it will be at least a decade or two before Jordan can hope to finance itself in both the public and private sectors.

Parallel to the huge state dependence on foreign finances, private money continues to flow into the country on a large scale. Remittances from the 300,000 Jordanians working in the Middle East oil states amount to about JD200m annually, while tourism revenues have also continued to rise to last year's total of JD95m.

large-scale inflow of funds that has offset the country's chronic trade deficit to maintain an anomalous surplus on the current account balance. Last year's surplus was about JD5m.

The Government's awareness of its vulnerability in this score is reflected in its policy of maintaining large reserves of gold and foreign exchange. These totalled JD260m at the end of April of this year, and reach nearly JD300m if one adds in gold and foreign exchange held by the commercial banks.

The annual deficit in the state's budget has recently been covered by increasingly active domestic borrowing on the part of the central bank. Total internal public debt stands at JD110m, mostly in the form of bonds and Treasury bills.

The Government's external debt is relatively slight, at JD148m, the bulk of it to foreign governments at long-term easy interest rates. Government-guaranteed debt totals another JD50m and accounts for much of the \$200m in Euromarket commercial loans raised by four state and semi-state institutions last year in Jordan's sudden move into the international capital markets.

Expected

More international commercial borrowings are expected during the next two years, particularly to finance Jordan's export-oriented and ultimately self-financing industries, particularly in the minerals sector. The country's debt service ratio is a low 6 per cent, and therefore recourse to the international market for more commercial loans is both likely and logical.

The real concern of the authorities during the present five-year plan that ends in 1980 is to develop domestic financial institutions that can play the main role in financing the country's development projects at least, if not to help the Government meet its annual budget as well by increased Government domestic borrowing.

Progress on this score has been registered in three main areas—the start of business of the Amman Stock Exchange, the establishment of four new commercial and investment banks with significant shareholdings by private and public interests in the Gulf oil producer states, and the rapid growth of the country's six specialised credit institutions, particularly the Housing Bank and the Industrial Development Bank.

whole remains far less sophisticated than other Middle East centres such as Beirut, Bahrain or Kuwait. There are no private company or corporate bond issues, for example, and the use of certificates of deposit is also unknown in Amman.

The 15 commercial banks concentrate on financing short-term trade, but this is expected to change now that the first investment bank has been established, with two more finance companies expected to open later this year as well, according to central bank sources, who note the development with satisfaction.

But the ten-year development bonds issued by the central bank do not have a secondary market, thus holding up the development of an active bond market, though the nascent stock exchange plans to list bonds in the very near future: this might encourage some corporations to use bonds as a means to raise money instead of simply issuing new shares or borrowing short term from the commercial banks.

The commercial banks, after a spree in 1975 and 1976 of lending huge amounts of money for speculative real estate and commerce, have now settled back into a more normal lending pattern, with relatively more credit going to productive sectors such as industry, tourism and agriculture, and less to inflation-fuelling land and construction activity.

This has been partly the result of central bank intervention two years ago, using credit ceilings and deposit ratios to encourage the commercial banks to lend more for productive ventures related to five-year development plan projects; but those inflation-fighting central bank measures have now been lifted, as have most foreign exchange restrictions.

The brisk activity of the Industrial Development Bank, which has exceeded its projected lending by 30 per cent for the past two years, has started to open the eyes of some of the commercial bankers to the profitable long-term, export-oriented businesses that are being established in Jordan and which require increasingly sophisticated financial services. But the commercial bankers' traditional conservatism has proved almost impervious to change, and the steady profits to be made from financing trade has kept the domestic banking sector far behind the innovation-minded and longer-range thinking economists running the specialised credit institutions and the country's overall economic planning effort.

Rami G. Khouri

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STATEMENT OF ASSETS & LIABILITIES AS AT
31st DECEMBER 1977.
in Egyptian £'000

Liabilities		Assets	
Capital	3 000	Cash & Banks	197 609
Res. & Prov.	57 617	Investments	43 274
Deposits	589 776	Loans & Discounts	403 805
Other Liabilities ..	19 855	Other Assets	25 560
Total	670 248	Total	670 248

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KUWAIT

Capital surplus

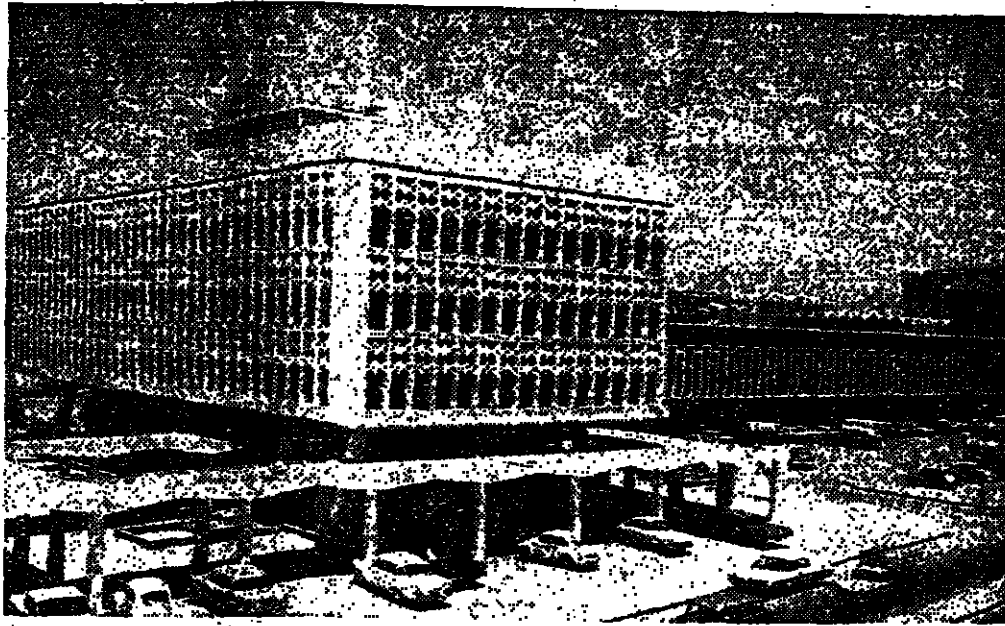
THE STRENGTH and dynamism of Kuwait's financial institutions reflect both a capital surplus which has existed for almost a generation and a high degree of professional competence on the part of the State's financial managers. Often described, with justice, as prudent, cautious and conservative, Kuwait's financial managers have also shown that they are innovative and that they can adapt their country's financial institutions to meet the changing market needs.

Being little more than a city State, and hence having no agricultural and no great industrial potential, Kuwait will have only its investment income and the income generated by its role as a financial centre when its oil revenues cease to be important. This fundamental fact has been at the heart of Kuwaiti policy thinking since independence.

As early as 1964, the Government of Kuwait set up the Kuwait Investment Office in London to manage the country's long-term investments and to place more liquid funds on the money market. Then in 1966, the Kuwait commercial banks founded the United Bank of Kuwait to manage and invest the growing quantity of funds which could not be absorbed domestically.

Share

Later in the 1960s the Kuwait Government took a 50 per cent share with the Kuwait private sector to establish the Kuwait Investment Company (KIC), which was followed by the Kuwait Foreign Trading and Investment Company (KFTIC), in which the Government has 80 per cent of the equity, and by the Kuwait International Investment Company (KIIC), which is wholly owned by the private sector. The three companies work to complement each other's activities and cannot be regarded as competitors. The basic objective of each is to further Kuwaiti investment interests and to establish Kuwait as a money and capital market in its own right, though the emphasis of each in attaining this objective naturally differs. KIC divides its activities between direct investment in the industrialised countries and the domestic Kuwait capital market. KFTIC has a similar split, though its external investments lean more towards the developing countries (with a capital market and banking



The headquarters of the Kuwait National Petroleum Company.

23 per cent share in the controversial Konana sugar project in Sudan, it is the second largest shareholder, after the Government of Sudan, and before the Arab investment company with 17 per cent). KIC gives priority to the Kuwaiti capital market.

Developments in this local market are a real measure of the growing diversification of the Kuwaiti economy. Yet in spite of these developments, it cannot be forgotten that the Kuwaiti economy is still dominated by oil, which accounts for about 95 per cent of the state's income, 75 per cent of foreign exchange earnings, and 80 per cent of GDP.

A significant milestone in the development of Kuwait as a genuine international capital market was reached in the latter half of 1977. The ruling mercantile oligarchy realised that the existing legal basis of banking and finance in the state no longer reflected the needs of the economy or the demands of the growing capital market. The then existing banking law, law number 32 of 1968 "concerning currency - central bank of Kuwait and banking, private and public" did not give the Government, through the central bank, the muscle it needed to react to market developments. Accordingly, an amendment was promulgated in October, 1977, which had the objective of strengthening and stimulating the local developing countries (with a capital market and banking

scene generally.

At the same time that the Government and the Kuwaiti financial community were debating the amendments to the banking laws, the financial community recognised that its wish to have an active market in Kuwait's dinar denominated bonds was being constrained by institutional shortcomings. There was a limited absorptive capacity for KD denominated bonds simply because there were too few participants. Only the five commercial banks licensed to operate in Kuwait, the four investment companies (KIC, KFTIC, KIIC and the Industrial Bank of Kuwait), and the two development funds, the Kuwait Fund for Economic Development and the Arab Fund for Economic and Social Development, could for all practical purposes deal in the market. There was no secondary market, no way for the smaller private investor to buy KD bonds and no liquidity. The market existed, but in name only.

Therefore, with the blessing of the Government, the Industrial Bank of Kuwait and the Kuwait International Investment Company set up the Arab Company for Trading Securities (ACTS) early in 1977 as an institution to create an effective market in bonds and other KD denominated securities.

The existence of a genuine market, encouraged by the necessary changes in the law, caused Kuwaiti banks to issue a new form of marketable security, medium and short term certificates of deposit. The move was welcomed by local banks in Kuwait, because, in addition to having a stronger and more flexible KD market, these banks could acquire longer term maturities for their liabilities and thus lend longer. The original issuers of short-term certificates of deposit (known as "tap CDs" in Kuwaiti financial jargon) and medium term certificates ("tranche CDs"), the Industrial Bank of Kuwait and the Gulf Bank, have been joined by others, and short and medium term money has become an important part of the Kuwait capital market as the market in KD bonds.

Diversity

Thus ACTS has been able to operate in a market which has considerable diversity. Initially, as a buyer of any KD bond that was on the market, ACTS soon became a seller, for every bond and certificate of deposit bought was readily saleable. Any Kuwaiti with liquid capital is a potential buyer, given the shortage of alternative investment opportunities in Kuwait.

In addition, the formation of ACTS has given a considerable impetus to the KD bond market itself, and has made this market more genuinely international. Originally confined almost exclusively to Kuwaiti financial institutions, about half the institutions sharing in KD bond issues are now non-Arab, simply because foreign financial institutions know that they can buy and sell KD bonds whenever they wish. Given a falling dollar, this becomes an increasingly important consideration. Whereas originally new issues of KD denominated bonds caught the headlines, there is now a new issue coming out on the average every few weeks, and there is a queue of borrowers wanting to issue KD bonds.

Maturities now range up to 12 years. The largest issue so far was a KD 12m issue for Sonatrach, the Algerian national oil and gas company, at 8 1/2 per cent. So far, there have been 33 KD bond issues in a wide range of borrowers, which include the African Development Bank, the Spanish Autopistas de Cataluna and Autopistas del Atlantico, Bank Handlowy Warszawski, the Korea Development Bank, the Republic of Panama and the Philip-

ines, and the Moroccan state industrial enterprises. In the first quarter of 1978 there were five new KD bond issues with a total value of KD 38m.

All 33 issues are now traded by ACTS above par, in contrast to the situation this time last year when considerably more than half were traded below par and when the market was extremely sluggish.

The Kuwait financial community learned a salutary lesson late last year and in the early part of this year when the government had to intervene on the Kuwaiti stock exchange to bail out a number of Kuwaiti institutions and private citizens left in embarrassingly exposed positions following the collapse of a classic stock exchange boom. In a society whose political strength depends on the support the ruling oligarchy receives from a wealthy middle class, the government could not afford a rash of bankruptcies. In any case, the sums involved, from the point of view of the government of Kuwait, were comparatively modest.

Intervention

Acting on recommendations submitted to it by a special finance committee, and under the provisions of the newly amended banking law, the Government let it be known that it was ready to buy shares of Kuwaiti companies at the lowest price quoted between October 1, 1977, and the date of the announcement in December. On the first day of the Government's intervention on the Kuwait stock exchange, its agent, KFTIC, bought on its behalf some 150,000 shares valued at approximately KD 20m (\$70m). The Government continued to buy shares until April 5 this year, when the law permitting it to deal in the market was rescinded.

An integral part of the Kuwaiti finance scene is the very large volume of international financial aid emanating from the state. Aid from Kuwait to lesser developed countries totalled \$6.6bn (at current rates of exchange) between 1962 and the end of 1977, and stood at \$4.4 per cent of total GNP over the past seven years. Direct grants have reached a total of KD 740m (\$2.7bn), almost all being to other Arab countries. Loans have totalled KD 625m (\$2.3bn), with almost 76 per cent of the total going to Arab countries and 84 per cent to African countries. In addition, Kuwait has contributed \$1.6bn in subscribed capital to a number of international and regional organisations, including the Arab Fund, the World Bank, the IMF and the OPEC Special Fund.

Although an oil surplus state for many years, Kuwait looks ahead to a day when dwindling oil revenues will equate to the more genuinely international, growing financial demands of defence, internal security and the expenses involved in a day-to-day running of a modern welfare state. Already there is talk of some form of taxation of income from property and investment, but the obvious and political practical difficulties in the way of implementing any legislation has caused the Government to shelve its tentative plans for the time being. Precise figures on the state's income from its investment and the income generated by its domestic money and capital market activities are difficult to obtain. The state in any case tends to understate the relevant figures and is understandably coy about publishing them. Yet there is every reason to believe that Kuwait will succeed, given continuing political and economic stability in the general area, in diversifying its economy to such an extent that the traditional mercantile fair of its citizens will find adequate outlet in an economy no longer dominated by oil.

John Townsend

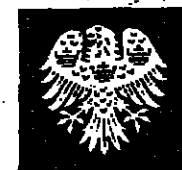
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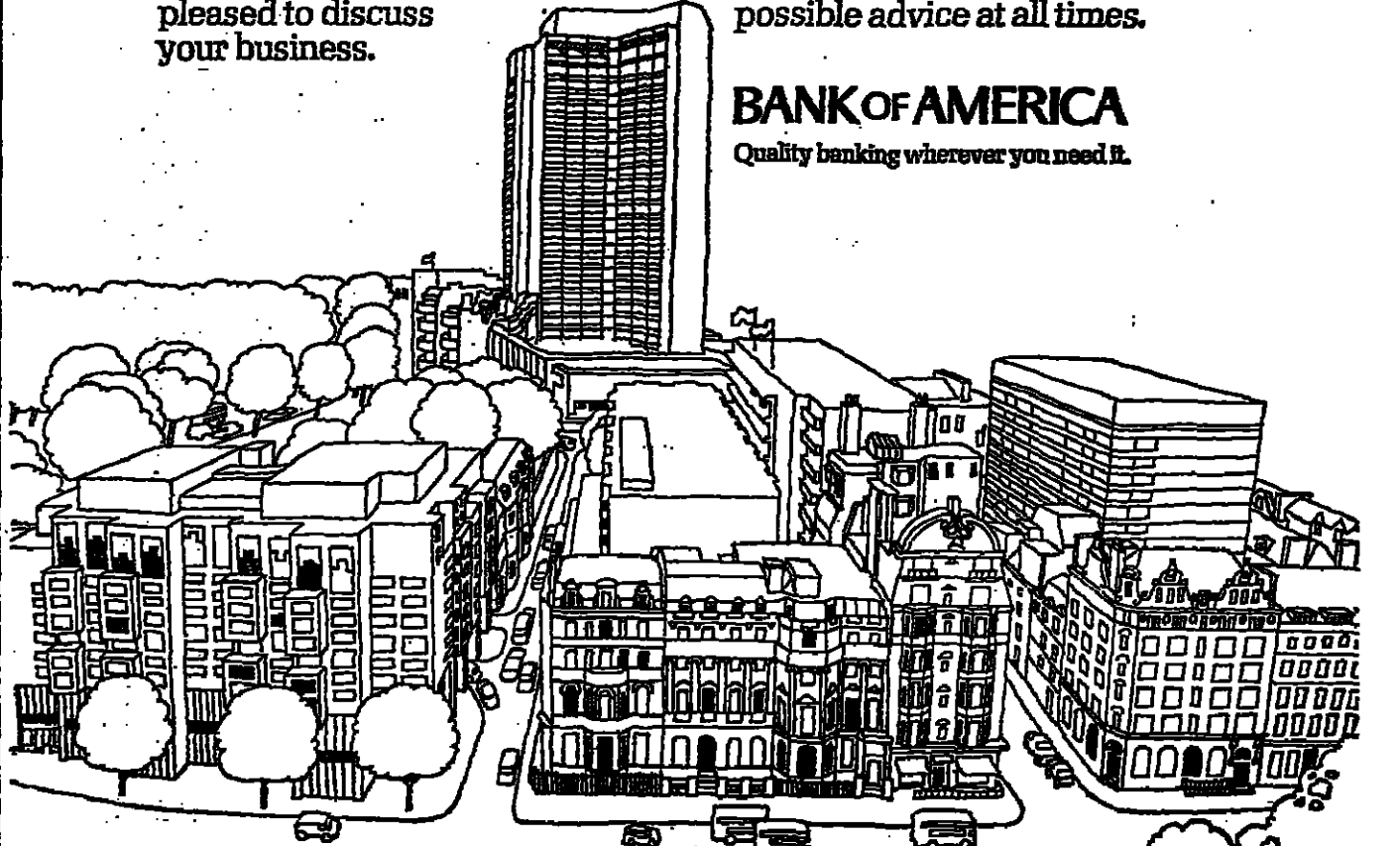
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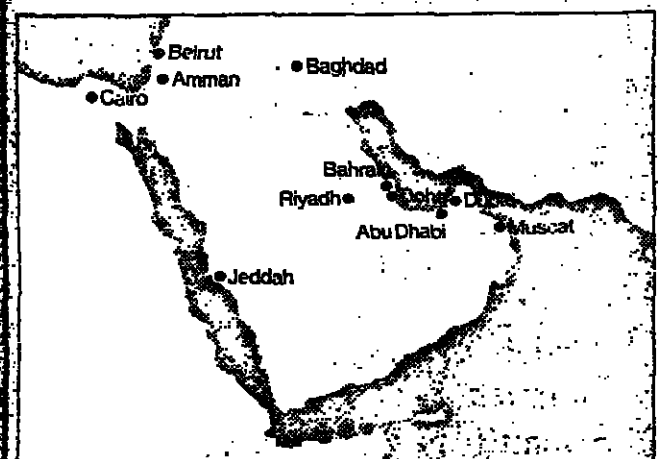
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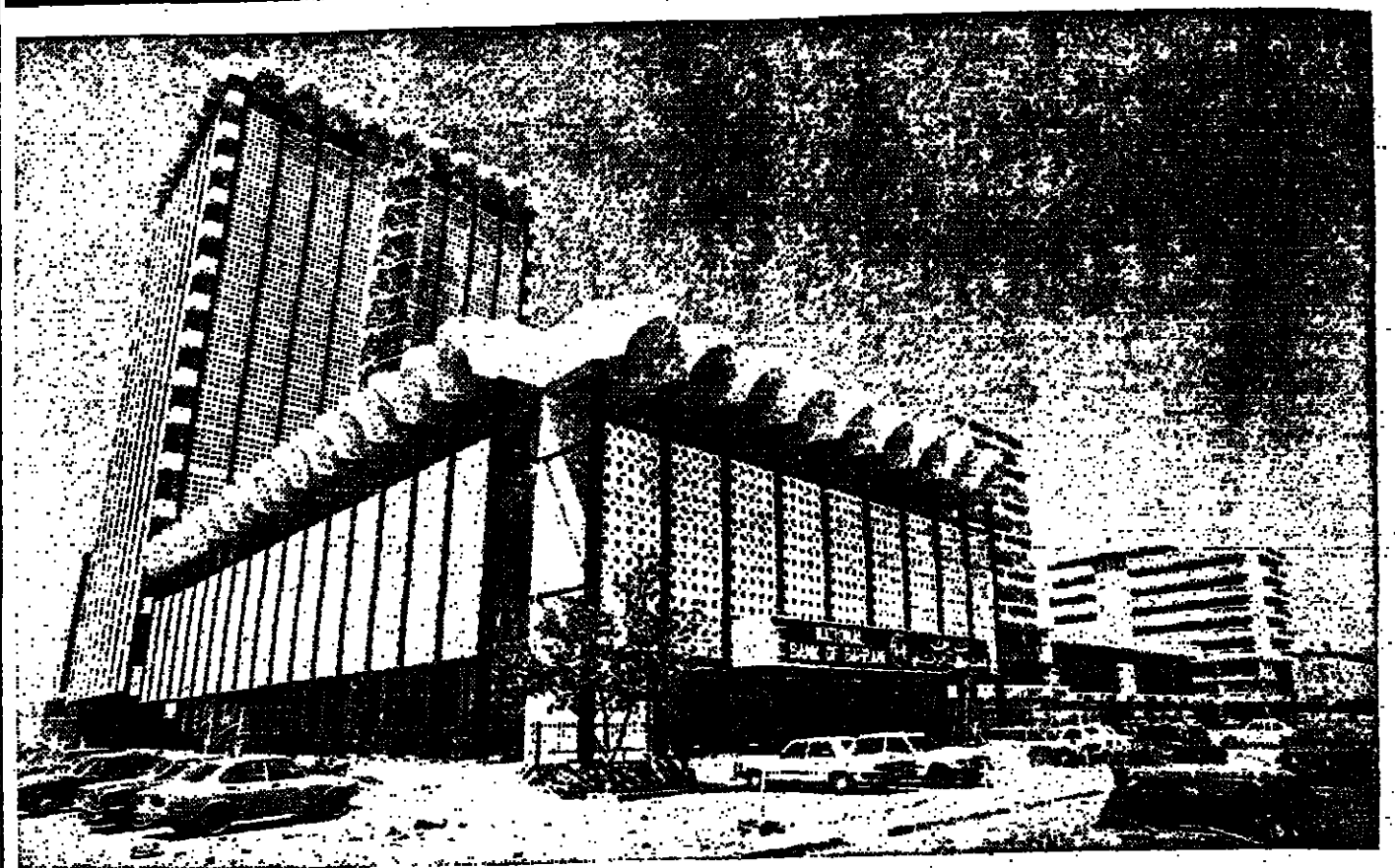
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BAHRAIN

Regional centre

THE GULF state with the lowest income from oil has become a banking centre for the region. Bahrain, whose oil income is barely over \$400m a year, has become home for over 40 major international banks which have formed an offshore banking market with \$19.5bn plus of assets. There are 18 commercial banks doing business within the island and a 19th is soon to start. As well as the numerous representative bank offices, a new category of bank — the investment bank — is also developing. The latest and most distinguished name to make the transition from representative to investment bank is the British merchant bank Kleinwort Benson.

Official figures indicate that almost all the banks established in the island are profitable. Setting aside the representative offices, which are not there to make money themselves, only the fairly newly established banks failed to make money during 1977, whether they were offshore units or commercial banks. The two locally incorporated banks that were in business during 1977, the National Bank of Bahrain and the Bank of Bahrain and Kuwait, made profits of \$7.25m and \$4.5m, respectively, while their assets increased by 17 and 25 per cent.

Figures for the profitability of the offshore banking units are not available for individual units, and the Bahrain Monetary Agency shies away from issuing a precise figure for the total. Earlier this year it revealed that all but "three or four" of the 33 offshore banking units operating in 1977, when total offshore assets were \$15.7bn, made profits. The agency said that average net interest earnings for the OBUs were 4 per cent a year. Although the expense of operating in Bahrain had been much discussed in the early months of the offshore market it was found that average operating budgets were around \$500,000 about half what had been expected.

Rival

An important factor contributing to the growth of Bahrain as a regional money centre was the restricted (and relatively inexperienced) nature of banking in some of the neighbouring states. At one time commentators believed that the United Arab Emirates, with its much greater oil income, surpluses and trade, could rival Bahrain. But the dire crisis of early 1977, followed by the recession in Gulf business generally, concentrated bankerly minds on Bahrain. And in June last year, the National Bank of Abu Dhabi was granted an offshore banking licence.

The other possible candidate for the title of financial centre of the Gulf was wealthy Kuwait with its limited number of banks. But the banks are very tightly controlled by the Kuwaiti monetary authorities, and now many of them appear on the tombstones in association with Bahrain based OBUs. "It is the dichotomy between official practice and commercial needs in some of the Gulf countries that has created business for us all," according to the manager of one of the early established OBUs.

Typical of this is the growing Saudi riyal business; the syndicated riyal loans made necessary because of the restrictions on lending by Saudi commercial banks, and the riyal exchange business that has arisen since the Kingdom decided to denominate all Saudi Arabia, Bahrain, The Government contracts in riyals. The syndicated loans in riyals are an indication of the total, for \$100m, of which \$70m is paid many OBUs are big enough, up. The activities of GIB, and

and still sufficiently assetthe other Arab banks (including Kuwaiti banks) in winning a number of recent syndication mandates by fine bidding has caused some mutterings among banks of other nationalities. Applications for offshore licences are not automatically granted by the Bahrain Monetary Agency, which monitors the activities of OBU's very closely through monthly reports. The BMA, which reports directly to the Bahraini cabinet, also supervises the commercial banks—commercial banking licences have not been issued since 1975 (with the exception of that for the third locally incorporated bank), with the result that Bahrain is the only Gulf state in which the rapidly expanding Bank of Credit and Commercial International has not been able to set up.

The third locally incorporated bank is the Al Ahlia bank, which was set up with a capital of \$10m last year. The BMA considered that there had been a sufficient increase in banking business for another bank to open and, it is hoped, not spoil the profitable picture of Bahrain commercial banking. The Al Ahlia, which has a management agreement with the Bank of America, is unlikely to be in business much before 1979, by which time the contract for the \$1bn Saudi Arabia-to-Bahrain causeway may have been awarded, giving a necessary fillip to banking business in the island.

Offshore

At the end of last year regional business accounted for over half the market with Gulf currencies (the Kuwaiti dinar is the other major currency used) touching the equivalent of \$3.6bn. Liabilities to Arab countries in all currencies reached \$8.2bn compared to \$2.6bn at the end of 1976—though twice as many offshore units were in operation at end 1977 than end 1976.

In spite of the flurry of excitement about Saudi riyal business, the dollar is still all important to the OBUs. At the end of last year over 70 per cent of all liabilities were denominated in dollars. Liabilities to European markets had increased from \$2.3bn to \$5bn, and assets had risen from \$1.1bn to \$3.9bn. Business with the Asian dollar market based on Singapore and Hong Kong is also steadily increasing.

Virtually all the major world banks have established offshore units in Bahrain and all the main Arab consortium banks are present. Two of the Arab consortium banks, FRAB Bank and the new Gulf-Riyadh Bank (a joint venture between France's Credit Lyonnais and the Riyadh Bank) have incorporated themselves in Bahrain as Bahraini exempt companies. (Kleinwort Benson also formed an exempt Bahraini company to apply for its investment banking licence; the exemption is from having majority Bahraini shareholding.) The most conspicuous absentees are the Japanese banks, but one is said to have applied for a licence and its application to set up abroad is being proceeded by the Bahrain Finance Ministry. The Bahrain Monetary Agency expects the next round of applications for offshore licences to come from major national banks associated with the region. The State Bank of India, for example, has an offshore unit.

The Gulf International Bank, which is headquartered in Bahrain and has just opened its London office, is becoming increasingly active in international syndications as it takes on more staff. GIB was set up in late 1976 and is owned jointly by the seven states of Saudi Arabia, Bahrain, The United Arab Emirates, Qatar, Oman, Kuwait and Iraq. The bank's authorised capital is \$100m, of which \$70m is paid up. The activities of GIB, and

being before the offshore banking licences were created in October 1975. Had that licence, or even the investment banking licence, been available when the idea of the bank was first mooted, it might have taken either of those rather than the full commercial licence which it holds, as it was intended to concentrate on wholesale business. The Continental Bank offers planning and development services for large companies wishing to do business in the area, and it has financed a number of private ventures, including the successful and expanding Dayville ice-cream business.

There seem to be no nasty bankruptcies in the offing to damage banking profitability, though many a contractor and trader in Bahrain is finding himself in rather straitened circumstances this year, as last year. Certain hotel projects in the island have had to be re-financed after much bickering between bankers and shareholders (with a little assistance from the Bahrain Government). Lending to the contracting industry continues to grow but much more slowly, some of the buildings that had to be financed during construction now have to be financed as they stand empty. Trade finance now accounts for about a quarter of all lending.

Assistance

In June this year the Bank of Bahrain and Kuwait, jointly owned by Kuwaiti banks and Bahraini private individuals, formally opened its commercial branch in Kuwait, the first "foreign" bank to do so. BKB has a technical assistance agreement with the American Chemical Bank, which has seconded general managers to both the Bahrain and the Kuwait-based banks.

Both the BKB and the National Bank of Bahrain are planning new branches in villages of the island as well as in the outer areas of the two main towns, Muharraq and Manama. The oldest established British bank on the island, the Chartered Bank, and the youngest, Grindlays, are also expanding their main premises, so business, while perhaps dull cannot be bad.

Donna Thomas

Investment and Finance in the Arab World

We are one of the world's leading executive search consultants and have been retained to handle several important banking and financial assignments in Saudi Arabia and the Gulf.

We are looking for specialists in the fields of Corporate and Project Finance, Investment and Commercial Banking. The positions will attract executives who have already made their mark in those fields and who are looking for a new challenge and expanding opportunities. Preferably they will be either Arab nationals or have some knowledge of Arabic and a knowledge of the area. They must be willing to accept assignments in those Middle Eastern capitals where our clients are based.

Great significance is attached to all these assignments and hence excellent salaries and benefits are being offered to those candidates with the right combination of education, experience and personal characteristics.

Box 2121, Gould & Portmans Ltd.
Caroline House, 55/57 High Holborn, London WC1.

ceptions and terms, increase and decrease of risk insured—all these matters in the light of both of a report made by the then Law Reform Committee in 1950. It is a report which, in my view, is still of great value to the community and the Law Commission here surely needs not to be reminded of this essential fact of survival for the British people.

CONTRACTS AND TENDERS

Government of Yemen Arab Republic

An established Central Purchase and Tendering Committee of the government of Yemen Arab Republic needs to recruit a panel of experts to evaluate the international/local bids for government works/purchases to be undertaken by the different ministries of the government. The experts panel will have to analyse and recommend on the proposals submitted to the Central Purchase Committee for final approval.

The recruitment of the following experts will be on general overseas terms of two years initial contract (renewable). The candidates above 40 years of age having relevant qualification and experience and already having served in a responsible position should only apply.

1 Civil Engineer

Having sound post-graduate experience of more than 15 years' in all types of civil engineering works such as buildings, airports, sea ports, roads, and other civil works.

2 Electrical Engineer

Having more than 15 years' of adequate post-graduate experience and an ability to evaluate all types of relevant international proposals.

3 Mechanical Engineers

As above.

4 Legal Advisor

Having sound post-graduate experience of 15 years in dealing with company law and international contracts and agreements.

5 Economist

Having sound post-graduate experience of 15 years dealing with economical studies in feasibility, statistics, project evaluation, and cost benefit analysis.

Salary will depend upon the calibre of the candidate within the range of U.S.\$2,000-2,500 per month (free of local taxes), and an amount of U.S.\$1,000-1,500 maximum will be granted at actual cost for furnished accommodation, air transport (once a year) local transport and other.

All correspondence will be treated as confidential. The interested candidates should apply with all particulars to:

The Ministry of Public Works and Municipalities,
Sana'a, Y.A.R.

The terms of reference for the above posts could be collected from the following address for guidance:

Yemen Arab Republic Embassy,
41 South Street, London, W.1, U.K.

or:

A. Al Kurshumi, Chairman,
Central Purchase and Tendering Committee,
Sana'a, Yemen Arab Republic.

INSTITUTO DE RECURSOS

HIDRAULICOS Y ELECTRIFICACION
REPUBLICA DE PANAMA
INVITACION FOR
INTERNATIONAL BIDS

BID NO. 537-78
FOR FURNISHING,
DELIVERING TO THE SITE
AND SUPERVISION OF THE
ERECTION OF THE
POWERHOUSE CRANE

The Instituto de Recursos Hidraulicos y Electrificación (IRHE) announces Bid No. 537-78 for the furnishing, delivering to the site and supervision of erection of a 160-tonne Powerhouse Crane for the Fortuna Hydroelectric Project. Proposals will be accepted until 10.00 am on October 2, 1978, at Panama Room of the El Panama Hotel, No. 111 Via España, Panama City, Republic of Panama.

Financing of the contract resulting from this announcement will be from the proceeds of Loan 1470-PAN that IRHE has obtained from the World Bank. Therefore, bidders can be considered only from World Bank member countries and Switzerland.

Bid documents as well as all maps, plans, specifications, and proposal forms may be inspected at IRHE's offices in Panama, Madrid Building, Cuba Avenue, No. 36 (Attention D. Perdomo, Telephone 25-1300), or at Chase T Main International, Inc., located at Southeast Tower, Prudential Center, Boston, Massachusetts, USA 02199 (Attention R. N. Fennel), or at the Panamanian Embassies in the United States of America, France, Italy, United Kingdom, Sweden, Germany, Switzerland, Brazil, Spain and Japan.

The complete set of documents may be obtained directly from the Purchasing Department office of IRHE located in the Pool Building, 2nd Floor, Justo Arce Avenue and 26th and 27th Streets, or at the Chase T Main Office in Boston, at a non-refundable payment of U.S. \$100.00 (U.S. dollars) per set.

Arq EDWIN E. FABREGA
General Director

Federal Islamic Republic of the Comoros

MINISTRY OF EQUIPMENT, TERRITORIAL DEVELOPMENT AND QUALITY OF LIFE
BUREAU OF EQUIPMENT

FINANCING: INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT (IBRD)

Notice of call for Tenders No. 01 of September 15 1978

SUPPLY OF EQUIPMENT FOR ROAD MAINTENANCE IN THE COMOROS

SUBJECT: The Bureau of Equipment of the Federal Islamic Republic of the Comoros is initiating a call for tenders for the supply of public works equipment and workshop tooling intended for road maintenance in the Comoros.

The purpose of the present call for tenders is the supply of public works equipment and workshop tooling intended for road maintenance in the Comoros.

This project is part of the three-year road maintenance programme financed by the International Bank for Reconstruction and Development.

The supply is divided into 11 lots comprising:

- | | | |
|------------|--|---|
| Lot No. 1 | Spreader truck 3,000/4,000 litres | 1 |
| Lot No. 2 | Dump truck, approximately 4 cubic metres, with built-in bottom griller | 2 |
| Lot No. 3 | Tire-mounted loader, 1,100/1,500 litre bucket | 2 |
| Lot No. 4 | Self-propelled pneumatic tire roller 12/16 tons | 1 |
| Lot No. 5 | Smooth-wheeled roller 10/15 tons | 1 |
| Lot No. 6 | Towed-type spreader, approximately 400/600 litres | 2 |
| Lot No. 7 | Mobile cold-mix travel plant | 3 |
| Lot No. 8 | Receiving-transmitting radio with accessories | 3 |
| Lot No. 9 | Laboratory equipment | 1 |
| Lot No. 10 | Machine tools and heavy workshop equipment | 1 |
| Lot No. 11 | Set of workshop tools | 1 |

SPARE PARTS

A list of spare parts shall be proposed for all the enumerated equipment (price proposals in accordance with Article 7 paragraph D of Conditions of Contract). The final list shall be determined by the Government following the opening of the tender.

The call for tender is divided into 11 lots; interested suppliers may bid on one or several lots.

Tenders and the proposed equipment shall mandatorily originate from one of the member States of the International Bank for Reconstruction and Development or from Switzerland.

The complete set of tender documents may be viewed:

IN THE COMOROS:
In Moroni, Ministère de l'Équipement, de l'Aménagement du Territoire et de la Qualité de la Vie.

IN FRANCE:
In Paris, BUREAU CENTRAL D'ETUDES POUR LES EQUIPEMENTS D'OUTRE-MER (B.C.E.O.M.) 15, Square Max Hymans—75015—PARIS.

The complete set of tender documents shall be sent following a request to BUREAU CENTRAL D'ETUDES POUR LES EQUIPEMENTS D'OUTRE-MER (B.C.E.O.M.) against payment of the amount of 30,000 Comorian francs (or 600 French francs), including postage; payment shall be by bank cheque payable to:

—Trésor Public—République Fédérale Islamique des Comores;

—Bureau Central d'Etudes pour les Equipements d'Outre-Mer (B.C.E.O.M.).

Submission of the tenders is scheduled in Moroni, MINISTRE DE L'EQUIPEMENT DE L'AMENAGEMENT DU TERRITOIRE ET QUALITE DE LA VIE—Direction de l'Équipement—on September 15, 1978, prior to 18.00 hours (local time).

The opening of the tenders shall take place on September 18 at 09.00 hours.

THE INDEPENDENT STATE OF PAPUA NEW GUINEA

DEPARTMENT OF WORKS AND SUPPLY
HIGHLANDS HIGHWAY ROAD PROJECT
PREQUALIFICATION OF CONTRACTORS

The Independent State of Papua New Guinea has the intention of proceeding with further construction works on the Highlands Highway between Chuave and Gurniger. Financial assistance with this project will be provided by the International Bank for Reconstruction and Development.

The work consists of paving and sealing 50 kilometres of existing gravel surface road. Expected approximate quantities are in the order of:

- | | |
|--------------------------------|-----------------------|
| (i) Pavement surface courses | 83,000m ² |
| (ii) Pavement surface dressing | 322,000m ² |

It is anticipated that invitations to tender will be issued during October 1978 for construction to start May 1979. Invitations to tender will be sent only to those Contractors who have prequalified and whose interest has been registered with the Independent State of Papua New Guinea.

Contractors from member countries of the International Bank for Reconstruction and Development and Switzerland, who have proven experience and capability in this field, may apply for prequalification.

Prospective tenderers must be able to show extensive experience in projects involving major highway construction and to show a history of successful contracts.

Prospective tenderers should consider the possibility of associating themselves with a local Contractor for the purpose of bidding for the project contract.

Information and forms of application may be obtained from: The First Assistant Secretary—Technical and Policy, Department of Works and Supply, P.O. Box 1103, BOROKE, PAPUA NEW GUINEA.

The closing date for application is 30th September 1978. The Independent State of Papua New Guinea will notify Contractors who have successfully prequalified to tender for the work and will supply them with tender documents and information regarding the preparation of bids without further notice. Reason for rejection of applicants for prequalification will not be given.

CAPITAL DEVELOPMENT AUTHORITY

DODOMA - TANZANIA
INTEGRATED CONCRETE INDUSTRIES
PREREGISTRATION OF TENDERERS

The above Authority invites interested organisations to submit credentials for consideration for prereregistration of tenderers for Phase II of the quarry and concrete products complex for Dodoma, Tanzania. Tenderers will be called for mobile quarry plant, crushing plant, tile-making plant, pipe and vibrated products plant, bituminous roadstone plant and associated facilities.

Tenderers are required to have proven operational experience and they will be required to provide to the Authority operational and management assistance for a period of up to five years after commissioning.

Construction of the works is scheduled to be completed in mid-1980.

Submissions for prereregistration must be received by August 14 1978, addressed to the Capital Development Authority c/o HRPL-CMPS Joint Venture Consultants at the Consultant's Head Office in Australia, with copies to their Dodoma and UK addresses.

Interested organisations should make contact immediately to obtain further information and a questionnaire from:

HRPL-CMPS JOINT VENTURE CONSULTANTS
369 Royal Parade 9 Pickhurst Road PO Box 811
Parkville Vic 3052 Chiddingfold Dodoma
Australia Surrey GUS JTS, UK Tanzania
Tel: AA50880 Tel: 855465 Tel: 53177
Tel: (03) 3471111 Tel: (042579) 3077 Tel: (061) 30421

MINISTRY OF PETROLEUM

CAIRO, EGYPT

Egyptian

General Petroleum Corporation

(EGPC)

NATURAL GAS PROJECT

INVITATION FOR

PREQUALIFICATION FOR GENERAL

CONTRACTORS

EGPC (natural gas project) for the purpose of issuing a forthcoming tender for execution of natural gas distribution system and relevant materials in four residential areas in Cairo (Helwan, Maadi, Nasr City and Heliopolis), intends to select among a limited number of reputable firms who qualify to undertake detailed engineering design, procurement and execution of the project (whole or part).

Applicants confident of their qualified capabilities are requested to submit a detailed text of their previous works in similar projects already undertaken or under execution.

The booklet containing the basic engineering data and describing the nature and volume of the work involved will be available at EGPC (natural gas project) Office, Osman Abdel Hafiz Street, Nasr City, Cairo, or at No. 2 Midan Kasr el Doubara, Garden City, Cairo (8th floor, Apt. 48) against payment of ten pounds Egyptian or equivalent thereto.

Applications will be received starting from 16th July until 30th August 1978.

HELLENIC REPUBLIC

MANPOWER EMPLOYMENT ORGANIZATION (M.E.O.)

INVITATION FOR INTERNATIONAL BIDS

1. The Government of Greece has received a Loan (No. 859GR) totalling \$23.5 million, from the International Bank for Reconstruction and Development (I.B.R.D.) towards the Second Educational Project. This programme, regarding M.E.O., consists of the following:

- Eight (8) new Vocational Training Centres (KEKATE and KM) (construction, equipment, furniture)
- Ten (10) Vocational Training Centres (equipment only)
- Three (3) Mobile Units for Vocational Training

2. This announcement concerns the procurement of mechanical-electrical equipment for three (3) new KEKATE and KM, the remaining equipment from previous biddings and the furniture of the eight (8) new KEKATE and KM. The mechanical-electrical educational equipment includes lathes, milling machines, drills, generators, hand tools, steel, cables, pipes, etc., and is grouped in 24 packages according to Type and Similarity (Supply: Phase B-Stage 2).

3. Bidding will be among firms from member countries of the I.B.R.D. and Switzerland and will take place from October 10, 1978 to November 20, 1978. Bid documents will be distributed to interested parties at a fee of US\$ 10.

4. Additional information may be obtained from MANPOWER EMPLOYMENT ORGANIZATION DIRECTORATE OF SUPPLIES 33, Halkokondili Street, Athens, 102, Greece. Working days and hours 11.00-13.00.

CONTRACTS AND TENDERS

Rate: £13.00

per single column centimetre

For further details contact:

FRANCIS PHILLIPS
on 01-248 8000
Ext. 456

NOTICE TO CIVIL ENGINEERING CONTRACTORS

CORAS IOMPAIR

EIREANN

(IRELAND'S TRANSPORT COMPANY)

Development at Rosslare Harbour,
Co. Wexford, Ireland

Coras Iompair Eireann shortly intends to invite tenders for extensions to the port facilities at Rosslare. The work will consist of a concrete blockwork pier 150 metres long with berthing facilities on both sides, the provision of shore seatings for two Ro/Ro link spans, a Customs building, surfacing and services. Alternative designs for the blockwork pier will be considered.

The Consulting Engineers for the project are Messrs. Coode and Partners, London, and Messrs. de Leuw Chadwick and O'Hea, Dublin.

Contractors who would like to be invited to tender for this work may now apply and are required to supply the following documents:

- A declaration of intention to submit a tender.
- Details about the composition of their firm, nationality and capital and yearly turnover over the past five years.
- References from their Bankers as to their ability to undertake works of the size and nature envisaged.
- Details of works of similar nature and magnitude carried out by them, the amount of the contract sum, for whom constructed, dates of commencement and completion and the names and addresses of the supervising engineers from whom references can be obtained.
- A list of the names, type and length of experience of their key professional personnel, as well as the number of their skilled and unskilled employees.
- An outline as to how they propose to provide the construction works with sufficient labour, skilled and unskilled, local and/or foreign.
- A list showing the number, year of manufacture and type of plant and machinery in their possession, as well as an outline of the major plant and machinery they intend to use in the works.

Applications will only be considered from principals who will themselves be responsible for executing the works. Applications from Agents will not be considered.

Applications, together with all appendices and supplementary information, must be in English, be enclosed in a sealed package and delivered in person or sent by registered mail, not later than 18th August, 1978 to:

CHIEF CIVIL ENGINEER,
CORAS IOMPAIR EIREANN,
Pearse Station,
Westland Row,
DUBLIN 2, Ireland

with a copy to:

MESSRS. COODE AND PARTNERS,
20 Station Road,
South Norwood,
London SE25 5AJ, U.K.

Coras Iompair Eireann do not undertake that all Firms expressing their interest will necessarily be invited to tender. Firms accepted as prequalifying to tender will be so informed and will be invited to take up the tender documents on payment of a non-refundable fee of £50. No payment should be made with the application to prequalify.

INTERVENTION BOARD FOR AGRICULTURAL PRODUCE

INVITATION TO TENDER

Tenders are invited for the immediate supply and delivery c.i.f., from any EEC port, of 2,500 tonnes of bagged sorghum destined as United Kingdom National Food Aid to Mali. The sorghum is to be loaded into one ship and delivered via the Port of Dakar to Kayes for 1,000 tonnes and Bamako for 1,500 tonnes. The sorghum shall be supplied in new or good quality second-hand fumigated jute bags marked "Food Aid Gift of the United Kingdom".

The allowance for the supply and transportation costs of the grain will be determined on examination of the tenders, delivery terms embodied in a Notice of Invitation to Tender together with the Tendering Forms may be obtained from Branch B (Cereals), Internal Market Division, Intervention Board for Agricultural Produce, 2 West Mall, Reading (Tel: Reading 588265).

Tenders must be submitted by 12 noon, Thursday, 3rd August, 1978, to:

HOME GROWN CEREALS AUTHORITY,
Hamlyn House, Highgate Hill, London N19 5PR.

NAFTAGAS - KOMBINAT NAFTNE INDUSTRIJE - Novi Sad - "GAS" Radna Organizacija Transporta.

Prerade, Primene i Prometa Gasa, Novi Sad, Narodnog Fronta 45

is inviting bids for supply of

GAS COMPRESSORS

NAFTAGAS-KOMBINAT NAFTNE INDUSTRIJE U NOVOM SADU — "GAS" Radna Organizacija Transporta, Prerade, Primene i Prometa Gasa, Novi Sad, has received a loan from the International Bank for Reconstruction and Development in various currencies equivalent to \$US11 million toward the cost of a natural gas gathering, transmission and distribution project in Yugoslavia, known as the "Naftagas Pipeline Project". It is intended that the proceeds of the loan will be applied to payments under the contract or contracts for which this notice of invitation to bid is issued. Companies or organisations having the capability, experience and standing to supply the required equipment, on the basis of C.I.F. Yugoslav Port, or F.O.B. Port of Loading, are invited to bid:

NATURAL GAS COMPRESSORS

- Separable Gas Compressors powered by Gas Engines
- Integral Gas Compressors

It is necessary to supply complete compressor sets with necessary equipment, controls, start-up devices, coolers, suction and discharge scrubbers, safety devices and instruments.

Only manufacturers of proved past experience in the manufacture of the above equipment should apply to NAFTAGAS — "GAS" for the Tender Documents. They will be required to state their manufacturing experience for the last two years with evidence of their financial standing.

Copies of Tender Documents can be obtained from: NAFTAGAS — "GAS" Radna Organizacija Transporta, Prerade, Primene i Prometa Gasa, Narodnog Fronta 45, Novi Sad, Yugoslavia upon payment of \$US500 to VOJVODJANSKA BANKA—Novi Sad, Account No. 65700-620-219-7100000-208/248 with indication "For Purchase of Tender Documents"

Bidders from Yugoslavia can obtain the above Tender Documents upon payment of Dinar equivalent to the Account No. 65700-607-885 of SDK, Novi Sad Branch

Payments are non-refundable

Tender Documents can be collected during Naftagas business hours from 17th July, 1978 to 18th September, 1978

Bidding closing date: 22nd September, 1978

Information available at:

Telephone (021) 367-677 or Telex 14-388 NG

GOVERNMENT OF YEMEN ARAB REPUBLIC

MINISTRY OF EDUCATION

Implementation Unit,
IDA Education Project,
P.O. Box 96, Sana'a

Cable: PROJED. Telex: 2405 EPIU YE

INTERNATIONAL TENDER NOTICE

Sealed Tenders are hereby invited from bona fide manufacturers and suppliers from member countries of the World Bank/IDA and Switzerland for supplying Equipment and Furniture as per bid-packages mentioned below:

- 1—Audiovisual Equipment and Software.
- 2—Furniture.
- 3—Science Equipment:
Chemistry: Physics: Biology and Biology models.
- 4—Miscellaneous Items:
Wall Charts, Maps and Globes; Commerce Office Machines; General Workshop Equipment; Garden Tools and Sports goods and Agricultural Equipment.
- 5—Electrical Equipment.
- 6—Automotive Equipment.
- 7—Equipment for Machine Shop and Glass workshop.
- 8—Equipment for Sheetmetal Welding and Blacksmithy.
- 9—Equipment for Foundry and Forging.
- 10—Equipment for Construction.
- 11—Equipment for Plumbing and Fitting.
- 12—Equipment for Wood Workshop.
- 13—Laboratory Equipment and Chemicals.
- 14—Sleeping Materials for Boarding Houses.

a) Tender documents may be obtained from the above address upon a non-refundable payment of US\$50 per bid-package.

b) The payment will be made against IDA credits 421/YAR and 611/YAR under IDA disbursement procedure III or VI.

c) Tenders will be received up to 12.00 noon (local time) on 30th October, 1978 and will be opened in public in the Implementation Unit/IDA Education Project at 10.00 a.m. on 31st October, 1978.

DR. SALAH SHEHATA
Director General

Businessman's Diary

U.K. TRADE FAIRS AND EXHIBITIONS

Date	Title	Venue
Current-July 28	International Wool Secretariat's "Wool Interiors"	Carlton Gardens, S.W.1
Current-July 29	Royal Tournament	Earls Court
Current-July 30	World Wine Fair	Bristol
Current-July 29	Middle East Business Expo '78	Grosvenor House Hotel, W.1
Current-July 29	Brighton Antiques Fair	Corn Exchange, Brighton
July 25-27	Royal Welsh Show	Llanelli
Aug. 2-6	Third National Sheep Demonstration	Kenilworth
Aug. 2-6	The Enterprise North East Exhibition	Aberdeen
Aug. 13-17	International Gifts Fair	Olympia
Aug. 22-24	Education and Communication Technology Exbn.	Holland Park School, W.8
Aug. 26-Sep. 2	International Motor Cycle Show	Earls Court
Sep. 3-7	International Watch and Jewellery Trade Fair	Bristol Exhibition Centre
Sep. 3-7	Giftware and Fashion Accessories Trade Fair	Mount Royal Hotel, London
Sep. 11-14	Electronic Displays Exhibition	Bristol Exhibition Centre
Sep. 17-20	Autumn Antiques Fair	Earls Court
Sep. 18-21	Firefighting and Prevention Exhibition	Earls Court
Sep. 24-27	Firewear Association Exhibition	Earls Court
Sep. 24-27	International Garden and Leisure Exhibition	Harrogate
Sep. 25-29	Furnaces, Refractories, Heat Treatment and Fuel	Nat. Exbn. Centre, Birmingham
Sep. 25-29	Economy Exhibition and Symposium	Nat. Exbn. Centre, Birmingham
Sep. 26-28	British International Fashion Fair	Bloomsbury Centre Hotel
Sep. 28	Mailing Efficiency Exhibition	Treestops Hotel, Aberdeen
Sep. 28	Petroleum Equipment Exhibition	Treestops Hotel, Aberdeen

OVERSEAS TRADE FAIRS AND EXHIBITIONS

Date	Title	Venue
Current-July 26	Photographic and Audio Visual Exhibition	Tokyo
July 25-Aug. 20	International Fair	Damascus
Aug. 30-Sep. 3	16th Overseas Import Fair	Berlin
Sep. 5-8	Third International Offshore North Sea Technology Conference and Exhibition	Stavanger
Sep. 3-5	Int. Hardware, Tools, Household Goods and Giftware Exhibition	Basle
Sep. 9-15	International Leather Week	Paris
Sep. 11-15	International Electra and Mining Exhibition	Johannesburg
Sep. 11-15	International Mining Exhibition	Belgrade
Sep. 12-15	International Congress and Exbn. on Data Processing	Berlin
Sep. 12-17	Int. Trade Exhibition for Home Improvements	Stuttgart
Sep. 19-22	Coffee Symposium and Trade Fair	Montreux
Sep. 22-25	Exhibition and Trade Fair of the Turkish Textile and Ready-to-Wear Industry	Basle
Sep. 24-27	Quintessence Hardware Trades Exhibition for retailers, wholesalers and manufacturers	Paris

BUSINESS AND MANAGEMENT CONFERENCE

Date	Title	Venue
July 26	Trade Research Publications: Researching UK Import Markets	Tower Hotel, E.C.
July 27	Australian British Trade Association: Investment in Australia's national resources, and uranium	Tot Hill Street, S.W.1
July 27-28	Middle East Transport: Arab Ports Conference	Grosvenor House, W.1
Aug. 7-11	Turkish Ministry of Foreign Affairs: Seminar on the new international economic order	Istanbul
Aug. 7-11	British Safety Council: Advanced Management Course	London
Aug. 14-16	Exeter University: Toxic Dust Problems in Industry	Exeter
Aug. 14-18	ABRAXAS: Synectics-Innovative Skills	68, Churchway, N.W.1
Aug. 21	British Institute of Management: Selection Interviewing—Theory and Practice	Parker Street, W.C.2
Aug. 29-Sep. 1	Institute of Personnel Management: Practical Negotiation Skills	Hemingford Grey, Cambs.
Aug. 30-31	Financial Times: World Aerospace	Royal Lancaster Hotel, W.2
Aug. 31-Sep. 1	Brit. Inst. of Management: Effective Speaking—Practice and Coaching using closed circuit TV	Parker Street, W.C.2
Sep. 3-7	Esomarr: Value for Money in Market and Social Research	Bristol
Sep. 3-8	British Veterinary Association: Annual Congress	Lancaster
Sep. 4-6	Brunel Univ.: Ergonomics of Workplace Design	Uxbridge, Middlesex
Sep. 4-6	Local Authorities Management Services: Negotiating Skills	Leicester
Sep. 4-7	British Farmer and Stockbreeder: Outlook for the English Wine Growing Industry	Wye College, Kent
Sep. 4-8	Institute of Personnel Management: Work of the Personnel Department	Embassy Hotel, W.2
Sep. 4-8	BACIE: Techniques of Instruction, Part 1	Sackville Hotel, Hove
Sep. 5-6	Institute of Personnel Management: The Secretary in Personnel Management	Whites Hotel, W.2
Sep. 6	Brunel University: Noise in Industry	Uxbridge, Middlesex
Sep. 7-8	Brit. Inst. of Management: Management Accounting for Non-Financial Managers	Parker Street, W.C.2
Sep. 7-8	Brunel University: What is organisation development?	Uxbridge, Middlesex
Sep. 10-15	Inst. of Personnel Management: Advanced Interviewing and Assessment Skills	Oxford
Sep. 10-15	Bradford University: Practical Skills of Managing People at Work	Bradford
Sep. 11	Brit. Inst. of Management: Unfair Dismissal	Parker Street, W.C.2

This week's business in Parliament

TODAY

COMMONS—Debate on unemployment. Motion on the Dock Labour Scheme 1978.

LORDS—Finance Bill, third reading. Employment (Continental) Bill, third reading. Wales Bill, consideration of Commons reasons for disagreeing with Lords amendments. Dominica Termination of Association Order. Debate on the future of the Port of London Authority.

TOMORROW

COMMONS—Debate on the economy, including the White Paper on inflation.

LORDS—Homes (Insulation) Bill, report and third reading. Inner Urban Areas Bill, consideration of Commons reasons for disagreeing with Lords amendments. Parliamentary Pensions Bill, report and third reading. Civil Liability (Contribution) Bill, remaining stages. Motion for a Select Committee on the 1978. Debate on the export of live farm animals for slaughter.

WEDNESDAY

COMMONS—Consideration of Lords' messages on the Scotland Bill, the Wales Bill and the Parliamentary Pensions Bill.

LORDS—Motion to approve European Space Agency (Immunities and Privileges) Order 1978. European Communities (Definition of Treaties) (No. 6) (International Development Association) Order 1978. European Communities (Definition of Treaties) (No. 7) (International Wheat Agreement) Order 1978. Community Road Transport Rules (Exemption) Regulations 1978. Drivers' Hours (Harmonisation) Regulations 1978. Valuation List (Second Postponement) Order 1978. Weights and Measures Act 1963 (Coffee and Blue-collar Jobs) Order 1978. Order 1978. Weights and Measures Act 1963 (Various Goods) (Termination of Imperial Quantities) Order 1978. Debate on division of responsibility for efficiency of county police forces.

THURSDAY

COMMONS—Proceedings on the Dividends Control Bill.

LORDS—Scotland Bill and Wales Bill. Consideration of Commons reasons for rejecting Lords Reasons. Chronically Sick and Disabled Persons (Northern Ireland) Bill, remaining stages. Motion to approve Shipbuilding (Redundancy Payments Scheme) Order 1978 and Shipbuilding (Redundancy Payments Scheme) (Great Britain) Order 1978. Debate on oil pollution.

FRIDAY

COMMONS—Motion on the Valuation List (Second Postponement) Order. Motion on the Ministers and Members' Salaries, Allowances and Pensions. Motion on the fifth report from the Select Committee on House of Commons (Services) Session 1977-78 on the new Parliament building.

LORDS—Transport Bill, consideration of Commons reasons for disagreeing with Lords amendments. Motion to approve Ministerial and other Salaries Order 1978 and the Family Income Supplements (Computation) Regulations 1978. Motion to Approve Dock Labour Scheme 1978.

FT SURVEY OF CONSUMER CONFIDENCE

More worry about unions

BY ELINOR GOODMAN, CONSUMER AFFAIRS CORRESPONDENT

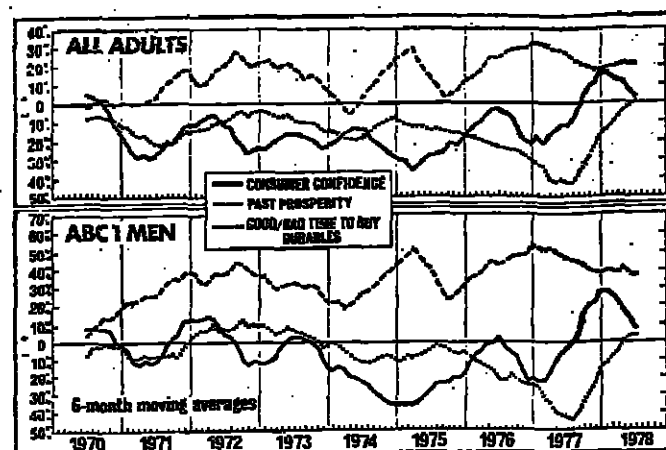
IN SPITE of the better news about prices, people are feeling much less confident about the future than they were six months ago, according to the latest survey of consumer confidence by the British Market Research Bureau.

Although slightly more people this month felt better off compared with a year ago the survey shows that they have mixed views about the future with women taking a far more pessimistic view than men.

In general, people seem to be more worried about inflation, unemployment and the unions than they were a month ago, and the underlying trend for consumer confidence is going down again. This is a reversal of the steadily improving trend seen in the first five months of the year.

The monthly index of consumer confidence showed the pessimism which has gripped the country since the summer. The number of people mentioning unions and strikes as grounds for pessimism also increased this month while there was also an increase in the number of respondents expecting unemployment to get worse. The number of people predicting an increase in unemployment outnumbered those expecting a fall by 27 per cent—the highest figure since last July.

The fatalistic belief that "things must improve" was again given as the main reason for optimism. Rather less of this view was held by respondents than in June—this control that inflation was being brought under view than in June—in this category there was an even split of opinion between optimists and pessimists. Against this rather uneven picture of consumer confidence, the past prosperity index moved rising prices again were the up again this month. Asked



Consumer Confidence Index: All Adults and May Become Unemployed

whether they felt better or worse off compared with a year ago, 32 per cent said better off and 30 per cent worse off. This gave a balance of 2 per cent feeling better off. As a result, the six-month moving average index of past prosperity remained constant at -1 per cent which historically a very high level. The time to buy index rose sharply this month, mainly because of a fall in the proportion of people thinking it was a bad time to buy major items. Those in favour of buying outweighed those against by 25 per cent—the same proportion as in April.

The research was carried out between July 6 and 13 at a time when newspapers carried many stories about the Government talks with the unions over another round of pay restraint. The uncertainty over this, together with talk of a possible election, may have contributed to the fall in confidence. A total of 1,007 adults was interviewed.

Cornish Parliament to collect 'car taxes'

THE ANCIENT Cornish Tin-minister Parliament is about to launch the second step in its claim that Westminster cannot impose taxes in the county without its approval.

Last month Mr. Brian Hambly, a bus driver and the Parliament Speaker, was a decision by magistrates at St. Austell that they had no jurisdiction to hear a summons brought against him for failing to tax his car.

Mr. Hambly, yesterday announced that more than 100 supporters of the Parliament intend not to renew the taxes on their cars.

Instead, they intend to pay £20 for "tax" discs issued by the Parliament which was revived in 1974 after a break of 222 years. The decision by the magistrates has given the Transport Ministry a problem which so far it has, publicly at least, made no step to resolve.

With the 21 days allowed for an appeal against the magistrates' decision now past, only new legislation at Westminster could bring about a change in much of the taxation law in Cornwall, as the St. Austell magistrates' decision said it now stands.

The Cornish Parliament is claiming that under the terms of Royal Charters going back to the 12th century, Cornish tinminers are exempt from taxes levied from Westminster unless they decide to accept the legislation imposing them.

The Parliament is also claiming that owners of shares in Cornish tinmining companies can claim the same privilege and also all involved in the Cornish china clay industry.

Annual report 1977

SHV Holdings nv

The Netherlands

Turnover £ 1909 million - over 60% of which outside The Netherlands

SHV is an international group operating in distribution and service industries with a continuing policy of international growth. It is one of the 10 largest trading companies in Western Europe.

The main sectors of the business are:

- energy, transport and trade in raw materials
- building and technical services
- wholesale and retail trade in food and consumer goods

Key points from Annual Report 1977:

- The year 1977 was marked by varying results in the different divisions. Against the background of the average performance there would have been no reason for disappointment, were it not for large and unexpected losses in the Building Projects division. As a result the profit of Fl. 66.6 million (£ 15.3 million) was substantially lower than in the previous year: Fl. 93.5 million (£ 22.4 million).

- Turnover increased Fl. 8,119 million (£ 1,956 million) in 1976 to Fl. 8,302 million (£ 1,909 million) in 1977 of which 63% emanated from outside The Netherlands.
- By paying a great deal of attention to the management potential in our company and by maintaining a high level of planned investments in the year under review further progress was made in providing for the future.
- Investments in property, plant and equipment amounted to Fl. 246 million (£ 56.6 million).

Expectation for 1978:

- It is expected that the net profit for 1978 will be comparable with the level reached in 1976.

Activities in the U.K.:

- Turnover in the United Kingdom amounted to £ 142 million and the number of employees was approximately 3000.

Energy and Transport

The shipping and coal trading activities in the U.K. form part of SHV's international involvement in all aspects of shipping and coal trading. The U.K. activities are coal trading, bunker and oil cargo brokers, chartering (dry cargo and tanker chartering), shipping and forwarding agents.

Self Service Wholesale Trade: Makro

- Although this sector made a contribution to the profit in the year under review, the results must be qualified as disappointing. This is mainly due to the poor economic situation, whereby the margins both in the food and the non-food sector came under very heavy pressure.
- In the course of the year the Makro staff moved into the new head office in Manchester.
- In 1977 construction started of a branch in Glasgow which is planned to come into operation in the summer of 1978.

Summary of annual report 1977 (in £ million)

consolidated balance sheet	1977	1976
fixed assets	281	241
current assets	397	432
current liabilities	309	294
total	369	379
other long term liabilities	129	130
total net assets	240	249

financed by:

	1977	1976
share capital and reserves including outside shareholders interests	160	164
in consolidated subsidiaries	58	60
provisions	24	25
subordinated long term debts	240	249

key figures from the consolidated P & L account

(in £ million) turnover	1,909.0	1,956.0
profit before taxation	33.2	42.2
profit after taxation	15.3	22.4
cash flow	29.9	35.0

return on shareholders' funds including third parties' interests

	1977	1976
	13%	17%

analysis of sales (in %):

geographical	1977	1976
In the Netherlands	37	40
In the rest of the EEC	43	39
In the rest of the world	20	21
	100%	100%

divisional

energy, transport and trade in raw materials	1977	1976
building and technical services	30	33
wholesale and retail trade in food and consumer goods	12	11
	58	58
	100%	100%

analysis of groups profit divisional (in %)

energy, transport and raw materials trading	1977	1976
building and technical services	31	31
wholesale and retail trade in food and consumer goods	13	9
	55	60
	100%	100%

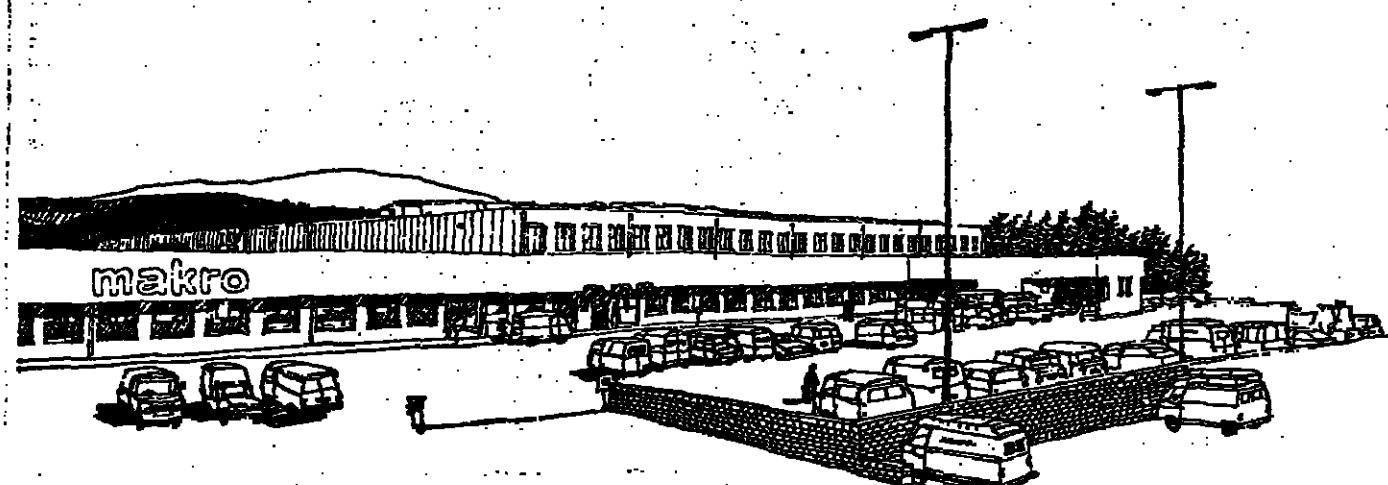
31 12 1976 fl. 4,15-£ 1.00
31 12 1977 fl. 4,35-£ 1.00

The annual report 1977 (in English, French, German or Dutch) can be obtained on request from:
SHV (United Kingdom) Holding Co. Ltd.,
Three Quays, Tower Hill, London EC3R 6DH
Telephone (01) 626 9126

SHV Holdings nv
1 Rijnkade, Utrecht
The Netherlands

SHV

Tomorrow Scotland gets a new kind of wholesaler.



The new Makro Centre in Glasgow cost us £3.5m to build. It's about six times the size of the average Scottish cash and carry. And it's going to give Scottish independent traders a service that no traditional wholesaler could ever hope to offer.

Makro Glasgow puts 25,000 different products for every kind of business under a single roof. It has facilities that range from computerised invoicing to a self-service restaurant, and the full range of own-brand products under the Aro label. In fact it adds up to the first attempt ever to provide Scottish traders with a buying organisation which matches that of their High Street rivals.

And judging by the response south of the border, they're going to give it a big welcome. Last year, from just six English sites, Makro Centres achieved a combined turnover of £134m, capturing nearly 10% of the total English cash and carry market.

Makro means a whole new future for Britain's independents. (All VAT-registered businesses are eligible for a Makro pass). If you'd like to be a part of our growth write now for further details to Jim Lowe, Makro Marketing Manager, Emerson House, Albert Street, Eccles, Manchester.

makro

Self Service Wholesalers.

A member of the S.H.V. Group

BIRMINGHAM: PITCOB DRIVE, OFF DUDLEY ROAD, HALESOWEN, WEST MIDLANDS. 14, GLASGOW: HILLINGTON INDUSTRIAL ESTATE, NR. RENFREW. LEEDS: ROYAL LANE, RING ROAD, LOWER WORTLEY, LEEDS. 12, LIVERPOOL: HORNHOUSE LANE, KIRBY, LANC. LONDON: ANCHOR & HOPE LANE, CHARLTON. LONDON SEZ, MANCHESTER: LIVERPOOL ROAD, BARTON MOSS, ECCLES, MANCHESTER. NEWCASTLE: VEAR DISTRICT, WASHINGTON, TYNE & WEAR.

OVERSEAS MARKETS

INTERNATIONAL BONDS

Sharp downturn in DM sector

BY MARY CAMPBELL

FOR MOST of last week international bond market trends continued to suggest that a turn in the market had come, with investors looking to U.S. dollar rates to peak soon, if not immediately. Fixed rate dollar bonds were reported in substantial demand from non-professionals early in the week.

This demand created professional short positions which compounded the price rises. Meanwhile, floating rate notes continued to ease (though in continuing two-way business) while dealers reported considerable movement out of D-mark domestic and foreign bonds by foreign holders.

By Friday the situation had changed again, at least as far as dollar straight bonds were concerned. There were substantial falls in prices that day, to the extent that many of the earlier gains had been wiped out.

A significant factor here was reaction to the Federal Reserve Board's apparent decision to push up the Fed funds rate from 7 1/2 to 8 per cent and probably to 8 per cent. This rammed home the likelihood of immediate further rises in U.S. rates, following which many had hoped that rises would at least be postponed.

Another bear factor was the recommendation by a special

OPEC committee that the price of oil should be linked to a basket of currencies. Although opposition from Saudi Arabia and Iran has apparently postponed discussion of this proposition until next December's routine conference of OPEC ministers, the implications of such a change are likely to overhang the market in the intervening period.

The D-mark sector seems to have been the only sector of the market which was affected substantially by the Bremen/Bonn summit. A number of factors, including a liberal dose of confusion, were at work but in general a sense of unease seemed to have led dealers and investors to the view that D-mark bonds were to be shunned.

One line of argument arose from the increased possibility of an EEC common fund. As one dealer put it, investors thought this would simply mean Germany handing over its foreign currency reserves to its weaker brethren.

The other line of argument concerned the strain on the capital market from the proposed increase in Germany's GNP of up to one per cent at a maximum cost in capital market issues of DM13bn. In the event a large proportion of any increase in GNP is expected to be financed substantially from taxes — although income tax is expected to be cut, many in the market were last week predicting a VAT increase to compensate.

The official German statement at the summit noted that the capacity of the capital market would be one constraint on the extent of any GNP increase.

Whatever the package which finally emerges, the market reacted extremely badly last week. Until Friday, the Bundesbank had to buy between DM250m and DM400m daily (on Friday the figure was DM700m). Domestic bond prices fell around a full point. Foreign bonds again fell substantially, less than a half and three quarters of a point.

The situation was not helped by the large volume of new

issues last week. The DM150m scheduled at the Monday's meeting of the capital markets committee for issue in the next month was perhaps not excessive, although probably maximum that the market could sensibly have been expected to absorb.

The real problem was that on top of the regular calendar a large volume of supra-national offerings have recently been announced. Following a DM170m placement for the European Coal and Steel Community the previous week, a DM100m placement for the European Investment Bank came out last week as well as the DM400m World Bank offering.

The terms of the latter put those of the EIB issue — agreed a week earlier — completely out of line. The terms of the OEB issue, originally for seven years offering 5 1/2 per cent at par, were adjusted to bring them into line with the short term tranche of the World Bank offering.

But perhaps the biggest indication of the weakness of the D-mark sector was Deutsche Bank's decision to reactivate the so-called "control number system". Regularly used in the German domestic bond market, this system is designed to prevent syndicate members from off-loading bonds soon after they

have been issued. Deutsche Bank has announced that for three months after the early August payment date for the World Bank issue it will buy bonds only if they are accompanied by a number which distinguishes the syndicate member to whom they were sold in the primary distribution.

In effect it is saying that it is prepared to buy up the whole issue if necessary in order to see who dumped bonds. It is understood that the German clearing house has agreed not to take delivery until this number is accompanied by the Euroclear and Cedel, have been told that unless they agree to do the same they will not be allowed to clear the bonds.

Although dealers will be able to sell free of these controls, numbers for delivery after early August will have had to carry the cost of holding the bonds for three months. The argument is that insofar as they would not want to be cut from the future World Bank issue, they would not want to subscribe bonds this time and avoid being seen to be dumping them.

The introduction of the system is felt to have been successful in that the bonds which were initially quoted at discounts of no more than one point

other house which is in a strong enough position to pressure international investment banks so bluntly.

Whether it is in the interests of the international bond market generally is a different matter. Dumping is one of the worst characteristics of this market and the continuity of issuing capacity is important for any market.

Many might feel that the introduction of a system which makes it possible for the most powerful issuing house(s) to attract borrowers at unrealistic terms and (b) to pressure the market into accepting them for their own book; stuffing the portfolios they manage is not necessarily the best of precedents.

Other factors which are in a strong enough position to pressure international investment banks so bluntly.

Whether it is in the interests of the international bond market generally is a different matter.

Dumping is one of the worst characteristics of this market.

The continuity of issuing capacity is important for any market.

EUROBOND TURNOVER

	U.S. dollar bonds	Other bonds
1978	1,252.5	1,252.5
1977	1,252.5	1,252.5
1976	1,252.5	1,252.5
1975	1,252.5	1,252.5
1974	1,252.5	1,252.5
1973	1,252.5	1,252.5
1972	1,252.5	1,252.5
1971	1,252.5	1,252.5
1970	1,252.5	1,252.5
1969	1,252.5	1,252.5
1968	1,252.5	1,252.5
1967	1,252.5	1,252.5
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1959	1,252.5	1,252.5
1958	1,252.5	1,252.5
1957	1,252.5	1,252.5
1956	1,252.5	1,252.5
1955	1,252.5	1,252.5
1954	1,252.5	1,252.5
1953	1,252.5	1,252.5
1952	1,252.5	1,252.5
1951	1,252.5	1,252.5
1950	1,252.5	1,252.5

Indices

NEW YORK—DOW JONES

	July 21	July 20	July 19	July 18	July 17
Industrial.....	\$35.42	\$59.82	\$49.70	\$29.00	\$69
Home Furnishings.....	87.20	87.10	67.20	67.15	87
Transport.....	228.95	228.50	228.88	228.82	227
Utilities.....	108.87	106.28	106.28	106.18	106
Trading vol. 000's of	28,880	55,740	30,950	22,850	28,110

OFFSHORE AND OVERSEAS FUNDS

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FINANCE LAND—Continued[illegible]

Plan for licensing banks to be published

BY MICHAEL BLANDEN

THE GOVERNMENT is expected to publish its detailed proposals for new legislation on supervision of the banking system.

The new law will set up for the first time in the UK a system of licensing for all deposit-taking institutions. It will confirm the Bank of England's position as the authority carrying statutory responsibility for regulation of the banks.

The proposals will be set out in the form of draft legislation, possibly in the form of a Bill, for discussion. The proposals will be set out in the form of draft legislation, possibly in the form of a Bill, for discussion.

There will be two main groups of financial institutions under the new system. The recognised banks will be subject to close supervision by the Bank but exempted from the licensing provisions, while other deposit-taking institutions will have to be licensed.

Flexible

The Bank is expected to try to retain considerable flexibility in the exercise of its supervisory authority and therefore may avoid too specific rules on the capital ratios of banks.

A further innovation will be the creation of a deposit protection fund. All institutions and banks will be required to contribute to a fund and to protect small depositors in case any institution gets into trouble.

Contributions are expected to be related to each institution's size, though with a maximum figure which to some extent will limit the relative burden on the big banks.

The legislation is being introduced both to the requirements of EEC rules and to the weaknesses in the previous system in the UK exposed by the fringe banking crisis.

EEC banking rules speeded, Page 3

New Stock Exchange evidence this week

THE SECOND stage of the Stock Exchange's evidence to the Wilson Committee is to be published at the end of this week. The second stage evidence covers the way in which the Stock Exchange functions as a market for securities — those in other countries, and potential competitors in this country such as the over the counter market.

However, the evidence is believed to concentrate particularly on the Stock Exchange's responsibilities for regulating the securities market — for which the Stock Exchange itself is simultaneously, under investigation by the Office of Fair Trading, under the legislation concerning restrictive trade practices.

CBI wants MPs from industry

BY JOHN ELLIOTT, INDUSTRIAL EDITOR

A MAJOR INITIATIVE aimed at increasing the number of MPs who have direct experience of working in industry was launched yesterday by the Confederation of British Industry.

Companies will be recommended to help their employees to become MPs by giving them time off when they become Parliamentary candidates and by re-employing them if they are defeated.

To allay worries among some large companies employees who become trade union-sponsored MPs would not necessarily receive all the benefits.

These are the main points to emerge from the report of a CBI working party on Parliamentary candidates, set up a year ago under the chairmanship of Lord Carr, a Conservative former Cabinet Minister, now a senior CBI figure.

There has been an increasing interest in the past year or two in West Germany as well as in the UK in increasing business knowledge of parliamentarians. "MPs are short of real life experience in trade and industry, which is bad for business and bad for the country," said Lord Carr when he launched his report yesterday. He stressed

BL Cars to meet unions on job cuts

BY ARTHUR SMITH, MIDLANDS CORRESPONDENT

BL CARS is expected to open negotiations with the trade unions during the next few weeks on plans to shed about 7,000 jobs by the end of the year. Management hopes to achieve this through natural wastage and still seek a gross reduction of voluntary redundancy.

The blow will be softened by a recruitment programme, now gathering momentum, to attract about 2,000 men to meet the company's shortfall in skilled labour.

BL Cars is likely to tell shop stewards that they must face reality and accept that a cut in jobs is essential to make the State-owned concern viable.

In spite of lagging output and its poor market share, the cars company is thought to have made the highest contribution to BL profits in the first six months.

Figures are not likely to be released until September, but BL cars is on target for a pre-tax profit of about £35m of which the main contribution is likely to come from the company's spare parts side rather than cars.

Leyland Vehicles, formerly the truck and bus company, has always been the main profit centre but is thought to be well down on target, though remaining in the surplus.

The cars company has made it clear that the present output target of 818,000 cars for 1978 implies a cut of 12,500 jobs, to be compensated by the recruitment of about 2,500 skilled workers.

So far, about 2,500 jobs have

been lost through natural wastage, mainly at the Longbridge and Cowley plants. If closure of the Speke assembly plant with its 3,000 employees is included, the company must still seek a gross reduction of about 7,000 jobs.

The main cut in employment had been held back until the second half of the year in the hope that the company might exceed output and market targets. The reverse has been true.

Production in the last quarter has been particularly disappointing, and on present trends output for the year will be only about 780,000 vehicles — a shortfall of more than 50,000 which again would have repercussions for future employment.

The main hopes for a rise in output are pinned on the speedy introduction of an incentive scheme.

New London HQ chosen

BY KEVIN DONE

BL, formerly British Leyland, is to lease an office block in Hammersmith, West London — near the start of the M4 motorway — for its new corporate headquarters.

The move rationalises the company's head-office operations in London which were radically changed when Mr. Michael Edwardes became chairman of the State-owned concern.

Mr. Michael Edwardes, BL chairman, has stressed that the early introduction of a productivity deal offering new incentives is "crucial to the survival of the company".

The workforce, in a postal ballot, has already rejected one scheme this year. It will be difficult to bridge the gap between management, which wants a centralised system giving control over total earnings, and the trade unions, which are pressing for payments closely related to individual effort.

The scheme now under negotiation is simpler than the original but does not concede to shop stewards their demand for "mutuality" — the right to determine the manning level and speed of the production line.

Management may use the potential earnings available under any productivity deal to smooth the path for redundancies.

Mr. Edwardes moved many functions from the HQ building near Marylebone Station to the operating divisions as one of his first acts. He also split the international division, previously responsible for overseas sales and based in London.

As a result, the number of staff working in London was cut from about 700 to about 300.

Nigeria's 2½% levy to hit UK companies

BY DAVID FREUD

CONSTRUCTION companies operating in Nigeria, Britain's ninth largest export market, may be hit by a 2½ per cent levy on their turnover.

A levy of this amount on individuals and partnerships in the construction industry was announced last year, but the Nigerian tax authorities are now seeking to apply it to companies, both local and foreign.

If the move goes through it will have a large impact on many of which have been able to use capital allowances as an offset against taxation.

The levy will be a minimum "tax" whether or not such allowances have been made.

The development comes shortly after Nigeria gave notice that it was ending its double taxation treaties with nine of its biggest trading partners, including the UK, because it was dissatisfied with its share of tax from foreign companies.

It is expected that Nigeria planned to tax foreign airlines and shipping companies at 10 per cent of their Nigerian revenue on any cash they remit out of the country.

The ending of the treaties implies a period of considerable tax uncertainty for foreign companies operating in the country.

Observers believe the various tax moves can be attributed to attempts by the Government to increase revenue at a time of financial stringency.

Several construction companies in Nigeria associated with international groups have been told by the tax authorities that their taxes have been raised — backdated to the 1977-78 financial year — under the 2½ per cent minimum provisions.

Appeals are likely, but if the authorities' interpretation of the decree stands, UK-based companies with Nigerian associates which could be affected include Costain, Taylor Woodrow, Wimpey and Amey Roadstone.

Last year's decree introducing the 2½ per cent levy said that the measure applied to persons. Whether this includes companies as well hinges on an apparent contradiction in the drafting of the relevant statute.

The decree was in the form of an amendment to the 1961 Income Tax Management Act which states that "person" includes, among other entities, companies.

However the specific section in which the amendment appears, which itself was added to the Act in 1968, states that a "person" does not include a company.

Weather

UK TODAY
SUNNY, but some showers.
London, S.E., Cent. S., E., S.W., Cent. N., England, E. Anglia, Midlands, Channel Isles
Sunny, showers. Max. 18C-19C (64F-65F).

Wales, N.W. England, Lakes, Isle of Man, S.W. Scotland, N. Ireland
Showers, sunny intervals. Max. 17C (63F).

N.E. England, Borders
Sunny, isolated showers. Max. 16C-18C (61F-64F).

Cent. Highlands, N.E., N.W. Scotland, Orkney, Shetland
Rain, bright intervals. Max. 13C-15C (55F-59F).

Outlook: Mainly dry, sunny intervals.

BUSINESS CENTRES

Yday	midday	Yday	midday		
°C	°F	°C	°F		
Amerstdam	22	72	Luxembourg	19	66
Algeria	26	79	Madrid	24	75
Bahran	27	81	Manchester	18	64
Barcelona	28	82	Moscow	12	54
Bombay	29	84	Nairobi	18	64
Buenos Aires	24	75	Paris	15	59
Calcutta	30	86	Rome	16	61
Cardiff	16	61	Sao Paulo	18	64
Cebu	28	82	Seoul	18	64
Dhaka	28	82	Stockholm	15	59
Delhi	30	86	Taipei	25	77
Dublin	16	61	Tokyo	25	77
Frankfurt	18	64	Yokohama	25	77
Geneva	18	64			
Hong Kong	28	82			
Kuala Lumpur	28	82			
London	17	63			
Lyons	17	63			
Manila	28	82			
Mexico City	28	82			
Mumbai	28	82			
New Delhi	28	82			
Osaka	28	82			
Port of Spain	28	82			
Rangoon	28	82			
San Francisco	18	64			
Singapore	28	82			
Sourabaya	28	82			
Tientsin	28	82			
Yokohama	28	82			

HOLIDAY RESORTS

Algeria	26	79	Madrid	24	75
Amman	28	82	Moscow	12	54
Bahran	27	81	Nairobi	18	64
Barcelona	28	82	Paris	15	59
Bombay	29	84	Rome	16	61
Buenos Aires	24	75	Sao Paulo	18	64
Calcutta	30	86	Seoul	18	64
Cardiff	16	61	Stockholm	15	59
Cebu	28	82	Taipei	25	77
Dhaka	28	82	Tokyo	25	77
Delhi	30	86	Yokohama	25	77
Dublin	16	61			
Frankfurt	18	64			
Geneva	18	64			
Hong Kong	28	82			
Kuala Lumpur	28	82			
London	17	63			
Lyons	17	63			
Manila	28	82			
Mexico City	28	82			
Mumbai	28	82			
New Delhi	28	82			
Osaka	28	82			
Port of Spain	28	82			
Rangoon	28	82			
San Francisco	18	64			
Singapore	28	82			
Sourabaya	28	82			
Tientsin	28	82			
Yokohama	28	82			

THE LEX COLUMN

New faces needed at Spillers

The annual meeting of Spillers ment responsible for the baking of this Wednesday promises to be a debate. In its explanations to New York it went as high as \$197. The Hong Kong market opened on Saturday morning at about \$196 and after a pretty active session and some profit taking finished around \$194. So all eyes will be on this morning's fixing here in London.

No single event seems to have sparked the latest speculative binge. New York dealers put it down to rumours that the Arabs were going to peg their oil prices to a basket of currencies to offset the depreciation of the dollar. But this story has been around for some time and no decision seems imminent. Clearly, the weakness of the American dollar is fuelling the speculative element in the market and both the Bremen meeting of the European Council at the beginning of the month, and last week's Bonn summit have done little to calm fears that the period of currency uncertainty is far from over.

Against this confused international monetary background it is not hard to see why gold has built such a following recently. Since last April, when the U.S. authorities announced the start of the monthly gold sales, the gold price has outperformed the strongest currencies. Against the dollar, the price has risen by 14 per cent, which compares with a 10 per cent appreciation of the yen and 7 per cent for the Swiss franc.

Of course, investors in gold are not paid interest and have to finance their positions at rates of, say, 10 per cent so they need to be sure of a healthy capital appreciation. However, there is no sign yet that institutional support for the market is flagging and it will need something like the announcement of considerably higher U.S. sales or the appearance of sizeable Russian selling to knock the gold price sharply lower.

Spillers' shares have tended to gravitate to the kind of fund which is not too interested in the long-term picture. Next year's dividend is much more important — unless someone can be persuaded to pop in a bid in the meantime.

Unscathed

The upshot is that the management of what remains a large public company will emerge unscathed from the crisis. Although Spillers has been subject to a number of internal reorganisations since the baking side was McKinseyed in 1968, the composition of its board has remained stable. Five of the eight directors have been there for at least seven years.

And last year's decision to take on non-executives for the first time remains some way short of fulfilment. One of the two subsequently appointed decided to retire after five months due to the pressure of other commitments. The other is Mr. John Elton, who recently surprised the City by retiring from his posts at Hill Samuel and Alcan.

How far was Spillers' management responsible for the baking crisis? In its explanations to New York it went as high as \$197. The Hong Kong market opened on Saturday morning at about \$196 and after a pretty active session and some profit taking finished around \$194. So all eyes will be on this morning's fixing here in London.

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NEW ISSUE

All these securities having been sold, this announcement appears as a matter of record only.

July 5, 1978



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Registered at the Post Office, Printed by St. Clement's Press Ltd and published by the Financial Times Ltd., Bankers House, Cannon Street, London, EC4A 3DF.

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